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THE JOURNAL OF  
THE INSTITUTE OF CHARTERED ACCOUNTANTS  
IN ENGLAND AND WALES

DECEMBER 1961

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# Accountancy

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## Professional Notes

### New York, 1962

THE EIGHTH INTERNATIONAL Congress of Accountants—to be held in New York from Sunday to Thursday, September 23 to 27, 1962—offers, both for the content of the speeches and discussions and as an opportunity to travel and observe the progress of accountancy in North America, not merely an interesting occasion but something of a challenge to British accountants. The progress of new mechanical and electronic techniques; advances in organisation and methods of an almost revolutionary nature; and educational advance in accounting at all levels, including the university—all these developments in the United States are sufficiently fast-moving and important to invite close examination, whether in the course of the Congress or in wider travel before and after it. This is in fact an occasion which accountants with a

responsible interest in the future of their profession can hardly afford to ignore.

The central theme of the Congress is the relationship to the world economy of the three major areas of the accountant's work—accounting, auditing and financial reporting. These subjects are to be considered not merely from the viewpoint of the profession itself but also with reference to the communication of information to shareholders, bankers, governments and other interested parties, and to the question of internal management and control.

The plenary sessions will include addresses by speakers prominent in the international industrial world. Ten or more technical sessions will be organised, at which accountants from thirty countries will present papers bearing on the central theme of the Congress. Small

discussion groups of twenty-five persons will be organised with a view to the informal consideration of subjects presented at the technical sessions.

The principal speakers at the opening plenary session of the Congress will be Mr. P. F. S. Otten, Chairman of the Board of N.V. Philips' Gloeilampenfabrieken, of Eindhoven, Holland, who will speak on the broad aspects of financial reporting and the world economy as seen by the head of an international corporation; and Mr. Arthur K. Watson, President of the IBM World Trade Corporation, who, like Mr. Otten, is head of a large international organisation and thus familiar with the financial, accounting and marketing problems inherent in world-wide operations. Others to be heard briefly at this session include the Presidents of the Sixth and Seventh Congresses, Sir Harold Howitt and Mr. J. Kraayenhof.

#### *Congress Registration Fees*

A registration fee of \$40 will be charged for each person from outside the United States who registers at the Congress—those residing in the U.S.A. are paying \$100. The fee will include a buffet supper, one luncheon for gentlemen and two for ladies, and the Grand Ball on the closing night, September 27, as well as tickets of admission to all planned entertainment events.

At the minimum, it is believed that visitors may live comfortably, but not luxuriously, for the five-day period for as little as \$120, including the registration fee of \$40, accommodation, meals, tips, local transport and incidentals. "At the maximum," the organisers report, "there is no ceiling on what can be spent in New York. The city has a peculiar ability to absorb as much money as anyone cares to spend."

#### *Tour Information*

The organisers of the Congress report that many requests have been received from abroad for information about tours to points of interest within a reasonable distance of New York. They suggest three-day guided tours of the Pennsylvania Dutch

Country, New England or Washington, D.C., including Mount Vernon and the Naval Academy—each at a cost of \$35 per person including tax—and a three-day trip to Colonial Williamsburg in Virginia with side trips to Jamestown and Fredericksburg, costing \$57 per person including tax. The price of these tours, which may be arranged through a local travel agent or after arrival in the United States, includes everything but meals.

The organisers also provide approximate prices for more extensive trips, such as:

1. A ten-day motor-coach tour to the Coast of the Gulf of Mexico and New Orleans, with stops at Bellingrath Gardens in Mobile, Alabama, and Biloxi, Mississippi, en route. Average cost per person is \$130 plus tax (about \$8 per person), and includes transportation, sightseeing and hotel accommodation but not meals. These would amount to about \$6 per person per day.
2. A twenty-eight-day motor-coach tour from New York across the northern United States to the Pacific Northwest. Stops are made en route at Seattle, Washington, Portland (Oregon), San Francisco and Los Angeles (California) and the Grand Canyon. Average cost is \$366 per person plus tax (about \$19 per person) exclusive of meals.

#### *Visas*

The organisers report: "In recent months the U.S. Government has attempted to simplify the procedures for obtaining a U.S. visa. Of course, this attempt does not by any stretch of the imagination approach the ease one encounters in travelling from one country to another in Europe. But we are told that it is now possible to complete the visa process in twenty minutes at any U.S. Consulate. Any-

one over the age of eighteen years, however, must apply in person at a U.S. Consulate for his or her visa."

#### *Further Information*

Members of The Institute of Chartered Accountants in England and Wales who are interested in attending the Congress but who have not contacted the Secretary of the Institute should do so without delay. Any other enquiries should be addressed to: Mr. David H. Lanman, Jr., Secretary of the Organising Committee, 8th International Congress of Accountants, 270 Madison Avenue, New York 16, New York, U.S.A.

#### *Your Hidden Costs*

YOUR HIDDEN COSTS is the title of the first of a series of technical brochures published by the National Hardware Alliance, 19/21 Hatton Garden, London, E.C.1. Slim though it is (twenty-eight pages), the booklet offers good value for money (price 5s.), not only to those interested in the hardware trade, but to distributive traders generally—and to financial advisers seeking a profitable but worthwhile outlet for their professional talents.

The sub-title of the brochure, "An Examination of the Need for Cost Control", gives a fair idea of its content. In the final analysis, it suggests, the best indicator of business performance is the return on the capital employed in its operation, and, since stocks are likely to predominate among the working capital items of wholesaling and retailing businesses, a particular importance attaches to the return on stock investment. Furthermore, stocks are the directly profit-earning part of working capital. The return on stock investment may be expressed as follows:

$$\begin{aligned} \text{Return on stock investment} &= \frac{\text{Net Profit}}{\text{Stock}} \\ &= \frac{\text{Net Profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Stock}} \\ &= \frac{\text{Net Profit}}{\text{Sales}} \times \text{Rate of Stock-turn} \\ &= (\text{Gross Profit Ratio} - \text{Operating Costs Ratio}) \times \text{Rate of Stock-turn.} \end{aligned}$$



From the latter formula it is clear that an increase in return on stock investment can be sought by:

- (a) increasing the gross profit ratio;
- (b) decreasing the operating costs ratio;
- or
- (c) increasing the rate of stock-turn.

Each of these possibilities is considered, but the point is soon made that the "key factor in the above equation is the ratio of operating costs to sales." The weakness of annual accounts prepared in the orthodox way is then stressed, and readers are encouraged to analyse operating costs on a functional basis. Three main heads are chosen as basic functional classifications corresponding to the main activities of the business: selling, buying and the provision of services. There is need to control the merchandise sold, to gear stocks to sales, to produce statistical controls, to be conscious of staff costs, to beware of Parkinson's Law, and to make better use of space; all these needs are considered under the first of the three headings. The cost of stock-holding, and questions of how many suppliers a trader should employ, of quantity terms, and of the co-ordination necessary where several shops are served by a single warehouse are then studied. The most interesting section of all deals with the cost of providing services and the assessment of customer-profitability.

All in all this is an excellent booklet. But it is a chastening thought that a trade association has found it necessary to advise its members—however excellently—upon matters within the professional scope of the accountant, without even referring to the services which he ought rightly to be providing. Much has been written upon this subject in recent years. Three years ago this month, the Institute published its statement *Business Efficiency—the contribution which the accountant can make*. And earlier this year Mr. A. B. Snow showed, at the Oxford Summer Course (see ACCOUNTANCY, July and August, 1961), that not only are management services appreciated, but they can be profitable both to client and to practitioner. "Do it yourself" is the idea of the moment, but it would be a pity to encourage amateur

accountants by an unwillingness on the part of the professionals to break new ground.

#### European Congress of Accountants

FORTY-ONE ORGANISATIONS of professional accountants from twenty countries of Western Europe have been invited to participate in a Congress of European Accountants to be held in Edinburgh during the week commencing September 8, 1963.

Announcing this at the dinner of The Institute of Chartered Accountants of Scotland in Glasgow on November 27, Mr. G. A. Usher, M.B.E., T.D., C.A., President of the Scottish Institute, explained that it would be the first European Congress at which all leading European accountancy organisations would be represented.

#### Replacement of one Superannuation Scheme by Another

WHERE ONE SUPERANNUATION scheme is replaced by another, equivalent pension benefits for the whole period of the employee's service must be assured under or by virtue of the new scheme. This will ensure that the requirements of the National Insurance (Non-participation—Assurance of Equivalent Pension Benefits) Regulations, 1960, are satisfied by the subsequent issue of certificates of assurance by the "responsible paying authority" (that is, normally an insurance company or the trustees of a trust fund).

Pension preservation action to meet the requirements of the Regulations will not be appropriate at the time of the change of scheme. Such action can only take place when a person's non-participating employment ends.

If the rules of the new scheme accept liability for benefits accrued under the superseded scheme no difficulty should arise. If however the liabilities of the old scheme are not taken over by the new scheme, but accrued rights under the old scheme are frozen, it might be possible to safeguard the "preservation liability" (i.e. the liability to preserve at least equivalent benefits) which will arise when the employment ends by in-

cluding in the new scheme a transitional provision referring to the payment of equivalent pension benefits for the period covered by the old scheme in such terms that, even though no changes were made in the assurance contract governing their payment, those benefits could nevertheless be deemed to be paid under or by virtue of the new scheme. Unless effective provision was made to this end, liability for a payment in lieu of contributions for the whole period of service might arise when each employee's contracted-out employment ended.

Some employers and life offices have asked the Registrar of Non-Participating Employments whether employees who remain in a scheme after it is converted (e.g. from a Section 388 scheme to a Section 379 scheme) can properly be regarded as covered by the original certificate up to the time of variation of the certificate if that takes place after the conversion.

A definite decision on any particular case could only be given on a reference by the Minister to the Registrar under Part III of the 1959 Regulations, but the Registrar states that the general position is that:

- (i) if the scheme, as revised, takes over liability for payment of past pensions under the scheme in its original form, the employees who remain in it may be regarded as covered by the original certificate up to the time of variation, in as much as the revised scheme—so far as benefit rights are concerned—is merely a continuation of the old one;
- (ii) if the revised scheme does not take over liability for past pensions the employees may not be covered during the gap between the freezing of the old scheme and the variation of the certificate. During this period the certificate would still refer to the old scheme, but the employees would not be earning pension rights under it.

Accordingly, employers will be well advised, particularly when (ii) above applies, to ensure that the election to vary is sent to the Registrar before



the date when the change is effected, so that the varied certificate may come into operation from that date. The operation of the varied certificate cannot be back-dated.

Any enquiries arising from this note should be addressed to the Ministry of Pensions and National Insurance, 10 John Adam Street, London, W.C.2.

### Planning for the Trade Cycle

"DURING THE PAST twenty years industry has never had it so good, which has brought an attitude of mind in employers and employed that costs do not matter. The result is that the cost of most British products is far too high." Thus said Mr. D. A. J. Manser, F.C.A., A.C.W.A., speaking at the London Regional Cost Conference of the Institute of Cost and Works Accountants. "Maximum profit will only be made," he went on, "if every function within the industrial unit is kept in balance." The effect of a trade cycle, and Mr. Manser insisted that trade cycles will always be with us, is to put the unit out of balance.

In a time of depression actual cost figures are particularly irrelevant. They include elements unrelated to normal circumstances. "Overweighted and even scrapped materials get booked to actual costs. Costs incurred in doing a job on the wrong machine, and even idle time, get booked to actual costs." All these functional inefficiencies should be brought to light in order to avoid establishing wrong bases for future price fixing and to give early warning of necessary changes. "There is a real danger of pricing oneself out of the market through the use of inaccurate and useless actual costs."

No one welcomes the possibility of depression, but that is no reason for refusing to be ready for one. Cost control and budgetary systems and a proper system of cash forecasting will certainly be of value if trouble comes. In times of depression cash tends to become available, and it should be invested to earn its keep, though kept reasonably liquid to be accessible when business improves. During a depression, when replacement costs are at their lowest, management should reconsider its capital expendi-

ture budgets, both short and long term. If the accountant is to have time for this, he cannot afford to spend it on the late and hasty installation of systems—the time to instal them is now.

### Rating Valuations

THE RELATIONSHIP BETWEEN the various sources of rate revenue (houses, industry, shops, offices and other property) will change completely with the revaluation now being made, which, for the first time since 1934, assesses all property at current rental values. At present houses are assessed on 1939 rental values; shops and offices pay 80 per cent of 1956 values; and industry and freight transport pay on 50 per cent of 1956 values. The new valuation lists will come into force on April 1, 1963.

After the 1963 revaluation, industry, shops and offices will pay full rates. Powers were, however, taken in the Rating and Valuation Act, 1961, to derate dwellings for the five years 1963/68, in case the burden on householders becomes too heavy because the basis of their valuation has been advanced by twenty-four years in one step. The Minister of Housing and Local Government expects to have a fairly accurate indication by the beginning of 1962 of the changes in the relative proportions of the total rate to be borne by the various classes of property, and has announced his intention to present to Parliament next spring any necessary orders to vary the scales of deduction for repairs and to derate domestic property.

### Houses to Let?

AT THE PRESENT time, between 260,000 and 270,000 houses are being built in England and Wales each year. Since only 60,000 to 70,000 are being demolished, we are adding to the "stock" of houses at the rate of about 200,000 a year. Yet over the next twenty years the number of new households requiring separate dwellings each year is likely to average only half that number. The net addition to stock is thus around 100,000 per annum.

The National Institute of Economic and Social Research, in whose *Review* these figures are examined,

points out that the existence of more houses than are needed to satisfy the demand will inevitably lead to vacancies. In many ways this is not a bad thing. For too long a shortage of rented accommodation has added to the problem of employment by reducing even further the movement of labour. House prices are high, whether to rent or to purchase; but there may be a strong downward pressure on them in the next five years if building continues at its present rate.

The rate of building is not, however, the sole key to the situation. There is also the rate of demolition. A recent estimate suggests that almost a quarter of the dwellings occupied today were built before 1880. If a hundred years represents an acceptable working life for a house—and the Minister of Housing and Local Government accepts it, whereas most writers on the subject assume a rather shorter life—some 3,660,000 houses ought to be demolished within the next twenty years, that is to say, about 200,000 a year, or three times the present number.

There is of course nothing magical in the life span of 100 years suggested. Nor is there any reason why the work should be completed by 1980 rather than 1970 or 1990. But the problem does not recede by being ignored, and if a proper programme is not forthcoming soon, the 1960s are likely to see a sharp change on the building and property rental fronts.

### Indian Productivity Team Reports

IN FEBRUARY, 1960, the National Productivity Council of India appointed a team composed of financial and cost accountants from all over India and drawn from industry, the profession and the government to report on the subject of "Cost Accounting and Financial Control." The team, which studied methods not only in India but in the United Kingdom, the United States and West Germany, has now presented its report.

As might be expected, the report draws attention to the high standard of productivity in the United States. This it attributes to:

- (i) Efficient and dynamic management constantly on the lookout for new

ideas. An increasing tendency for top-management positions to be held by young and able managers was observed.

(ii) Co-operation and united effort by management and employee, and a willingness on the part of everybody to work.

(iii) Aggressive cost consciousness.

(iv) Efficient service departments.

(v) The drive for research and technological improvement.

(vi) Early plant replacement.

(vii) The high degree of mechanisation and automation, not only inside the factory but also in service functions such as costing, accounting and other administrative areas.

(viii) Maximum utilisation of plant and equipment.

The report points to aggressive cost consciousness as one of the outstanding characteristics of American management. No decision of importance, it suggests, is ever taken at top level without a proper assessment of the cost implications and an evaluation of the financial return. Chief motivating factors are said to be:

(i) The high degree of competition and the low margin of profit per unit.

(ii) Technological advances in production techniques involving large capital investment.

(iii) Technological advances in accounting techniques which make relevant accounting data quickly available to management.

(iv) The high cost of labour.

(v) The wide dissemination of costing and accounting knowledge at all levels of management.

(vi) The "well-founded belief" of American management that unit costs must be reduced each day and every day, week in and week out, year in and year out.

The American "controllanship" concept was generally approved. The team stressed the way controllers and their staffs not only produced routine reports but interpreted their implications and emphasised salient points. "In all cases speed was the keynote of the controllers' service. . . . Controllers looked ahead into the future and anticipated the needs of management. With . . . new projects, controllers were brought in at the very initial stage." The report emphasised the close contact between the costing department and the production and technical departments, so that "the

barriers usually noticeable between costing and operational personnel were fast disappearing."

The report also stressed the uses of cost reduction programmes, the integration of cost and financial accounts and the universal use of ratios. The team noticed that in the United States in recent years "the systems and methods department in various organisations had grown in importance. In fact, this department had reached such a stature . . . that they have a separate Systems and Procedures Association. . . ." The installation of computers in factories was frequently found to have been handled by the methods and systems departments, rather than by accountants.

As regards mechanisation, the position in India differs, not surprisingly, from that in the West. "It is understood that cash registers marketed by the National Cash Register Company alone number some three million in the U.S.A., 350,000 in the U.K. and 163,000 in Germany; and there are other makes in use in these countries. Indian industry utilises only about 1,000." Accounting machines of the calculating/ledger posting type in use in India number only 350. There are less than 200 punched card installations there, and only one computer—and that is installed mainly for non-industrial use.

#### Scratch the Chairman

"SCRATCH THE CHAIRMAN of any large industrial company and as like as not you will find beneath his gracious but tycoon-like exterior—a Chartered Accountant." So runs a half-page advertisement for a research magazine called "R & D" in a recent issue of the *New Scientist*.

"They reach this eminent position," it continues, "because their professional experience gives Chartered Accountants a unique opportunity of seeing, from the inside, a great variety of businesses. This accumulated knowledge of techniques, equipment and methods is applied to entirely different types of concern. Scientific workers in research and development establishments seldom have the opportunity of visiting other laboratories and

seeing equipment techniques and methods that could well be applied to the projects in their own establishments."

If, after that, accountants still feel that they are unable to project the image of their profession so as to catch the public imagination, they can take comfort from the fact that somebody else is apparently willing to do it for them.

## Shorter Notes

#### Resignation from the Council

We report with regret the resignation from the Council of The Institute of Chartered Accountants in England and Wales of Mr. K. G. Shuttleworth, F.C.A., Sheffield. Mr. Shuttleworth, who qualified in 1919, was elected a member of the Council in 1948. At the date of his resignation he was serving on the Applications, District Societies, and Library Committees, and he had also been a member of the Finance Committee.

#### Electronic Computers in use by Government Departments

The Financial Secretary to the Treasury, Sir Edward Boyle, in answer to a question in Parliament, has stated that there are at present twenty-one electronic computers in use for clerical purposes by government departments, and that six more are on order. The twenty-one computers already in service are spread through a wide field: six are in use by the Admiralty, three each by the Ministry of Agriculture, Fisheries and Food and the Post Office, and one each by a number of other departments, such as the Board of Inland Revenue, the Ministry of Labour, H.M. Stationery Office, the Board of Trade and the War Office.

#### Frank Booth

Mr. Frank Booth, C.A., a member of the Council of The Institute of Chartered Accountants of Scotland and Chairman of the Association of Scottish Chartered Accountants in London, died on November 18, at the age of fifty-seven. Mr. Booth was a partner in Mann, Judd & Co., Chartered Accountants, London, and in the associated firm of McLintock, Mann & Murray, and also director of several companies.



## EDITORIAL

## No Time to Pause

MILLIONS of wage-earners now chafing at the bit will rejoice to see the end of the pay pause, whenever it comes. Never a popular measure, the pause now seems doomed to failure. Yet, at heart, a wage freeze appealed to common sense. It is instructive to ask, therefore, what went wrong.

The July Budget revealed that events had outstripped the Chancellor's grasp of them. In April he apparently saw nothing to prevent his giving major tax concessions. His July Budget was hastily made, with little pretension to long-term planning. Yet long-term planning was the very thing that was essential if a new wage programme was to succeed. As it was, the pause was imposed by decree, catching a round of wage claims in process. Consequently it did less than justice to some trades, which had claims on the stocks, and more than justice to others, which had just floated theirs off in time.

The opportunity to demonstrate to employer and employee alike that real earnings rise only with increases in productivity was lost—as has since been shown in some detail by Dr. J. J. Gracie, President of the Birmingham Chamber of Commerce. No attempt was made to show that the common union practice of forcing up wage rates and weekly earnings without regard to productivity is a waste of time and effort—whether it is done by strikes or by negotiation. Dr. Gracie has demonstrated that by April this year wage rates were 183 and weekly earnings 216 (1954=100); yet real earnings rose only in step with productivity to 134. Only if productivity improves will the real reward improve.

The trouble with the pay pause, as with any other such emergency device for simply holding down prices (in this case the price of labour), is that it obscures such fundamental considerations as this. What Dr. Gracie did was to expose such considerations by means of figures. In short—no rise in productivity, no rise in real earnings.

The very term "pay pause" suggests a temporary expedient. What is to happen when the pay pause is over? As things stand, millions of workers are looking forward to April, 1962, which is commonly predicted to be the end of the pause, after which those unions who have not beaten the gun already will in unison demand more money. A sudden increase such as this is the very reverse of what is desirable.

It seems therefore that the pause should be extended until some more fully considered policy can take its place. So far, it cannot be said to have hurt any section of the community very much, but there may yet come a time when its effects will be felt. In fact, there must come such a time if it is not to fail altogether. And the pause must not fail—we cannot afford a further bout of inflation. British prices are already uncompetitive in world markets, at the very time when it is particularly important to retain (or regain) our position in international trade. The realistic

alternative to the pause—unpalatable, but still realistic—is most likely to be that suggested by Professor A. W. Phillips in his inaugural lecture recently delivered at the London School of Economics. It is an increase in the average level of unemployment, probably to about 2½ per cent. Professor Phillips did not arrive at that percentage by a process of thinking of a number. Once again the fundamentals of our economic situation have been shown up by means of figures, in this case figures collected and analysed over a period of some years. The results have about them an air of simplicity, as one would expect of a really penetrating accounting exercise, but the problem of inflation with which the figures deal is as fundamental as the problem of unemployment with which Keynes dealt in the 'thirties. In this case too, the important point may be not that some new process of economic logic has been discovered, but that an old one has been made plainer than ever before, without undue regard for the fact that many people will not like it.

What is finally wanted is not a pause but an end: the end of the wages arrangements we know, so that they may be succeeded by a new national wages policy. Certainly a form of collective bargaining would remain at the heart of such a policy, and it is becoming increasingly clear that the institution of wage contracts for periods of at least a year would be part of it. But such fundamental changes require the co-operation of employers and unions alike, and the Government's handling of the pause has done great harm to the collaboration already enjoyed.

In any case, machinery to settle disputes after they have arisen is not enough. The aim must be to remove, as far as possible, the cause of pay disputes. Dr. Gracie suggests that this be done by linking the worker's rate of pay to national productivity, so that, if national productivity rose by 2½ per cent per annum, wages would rise by a similar amount. "If workers knew that every year wage increases would be automatically considered without their having to demand them, then this would remove the present acrimonious preliminaries to negotiation and would guarantee that the result could never be inflationary—that is, wage increases would be real increases in terms of purchasing power."

What is certain is, first, that general exhortations concerning what is necessary to put the economy in balance have had their day, and second, that hasty expedients such as the pay pause are so far from reaching the fundamental causes of inflation that they are hardly worth shedding tears over. The right road is one which is, or in all conscience should be, familiar to accountants. It is patiently and tirelessly to explain in figures just where the national business has gone wrong and to point to those policies—which again may be expressed in figures, as has been done by Dr. Gracie and Professor Phillips—that seem most likely to put it right.



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This article is the first of a series in which the frequently recurring topic of the valuation of shares is thoroughly discussed. The author is a recognised authority on the subject.

## Share Valuation

IT IS JUST over one hundred years since the first statutes to establish effective general limited liability (18 and 19 Vict. C. 133 and 19 and 20 Vict. C.47) appeared on the statute book. Before that time only the privileged few could resort to the expensive means of Royal Charter or special registration. It is perhaps not always realised how swift has been the growth in these hundred years. In 1857, 348 limited companies were registered, in 1863, 691, in 1879, 1,034, and in the early 1880's an average of 1,600 each year. These figures may be contrasted with those contained in the Board of Trade report for 1960, showing that during that year 34,312 companies were registered and that at the end of the year the total on the register was 393,494 of which 16,705 were public and 376,789 were private.

In his book on *The Social Framework*, Professor J. R. Hicks comments as follows on the two main features of joint stock companies from the point of view of shareholders, limited liability and transferability:

The shareholder has the protection of limited liability; but otherwise he puts himself into the hands of his directors, just as the sleeping partner put himself into the hands of his associates. He gives over his property to the directors and lets them manage it for him, so that it depends on their ability and their diligence whether or not he gets a good return, or whether indeed he loses it altogether. At first sight it seems astonishing that shareholders

should be found who will have such confidence in the directors of public companies, people with whom they are most unlikely to have any close acquaintance. The explanation is partly to be found in another consequence of limited liability. Since the shareholder cannot lose more than he has put in, whatever happens to the company in which he has invested, he will be in a safer position if he has small holdings of shares in a number of different companies than if he has "all his eggs in one basket." This the sleeping partner could not do without adding to his risks, but it is the common practice of the modern capitalist.

Another way in which the shareholder in a public company is protected is by the facility with which he can dispose of his shares whenever he desires. Shares in private companies cannot be sold except to persons approved by the directors of the company; but shares in public companies can usually be bought and sold quite freely, without the company's officials being consulted in any way. In order to facilitate such transactions, there has grown up a body of dealers, who are organised in the Stock Exchange. The ability to sell his shares on the Stock Exchange does not indeed safeguard the shareholder against loss; if he gets bad news about the company, and so wants to dispose of his shares, the chances are that other people will have heard of it as well, so that buyers will be hard to find, except at a reduced price. But the pessimist does get a chance of withdrawing his fingers before they get burnt too badly.

It is in relation to the second of

these features, that of transferability, that the problems of valuation arise. As with any other transferable commodities or rights, the transferor will expect to obtain a price from the transferee, and that price will be determined by the operation of the normal laws of supply and demand. Before those laws can begin to operate, however, so as to bring together a willing buyer and willing seller and make an agreed price, both parties must have a clear idea of what it is that is being transferred, and this involves some consideration of the whole nature of a share in a limited company.

This question received judicial attention from Farwell, J., in *Borland's Trustee v. Steel Brothers & Co. Ltd.* (1901) 1 Ch. 279. In that case Mr. J. E. Borland held seventy-three shares in the company. He was adjudicated bankrupt on February 22, 1900. There were several new articles adopted in 1897, owing to some discontent which appears to have existed among the managers and assistants. The company carried on business as merchants and commercial agents in the East and in London. There were 1,600 preference shares, upon which £100 per share had been paid up, and 1,600 ordinary shares, upon which £80 per share had been paid up. Article 49 provided generally that any shares which a shareholder might wish to dispose of should first be offered to a manager or assistant. Article 53 provided that the "fair price" should not exceed



"the par value", which was arrived at in a special way by adding a proportion of the reserves and "plant depreciation account" and making other adjustments. A certificate of the auditor should be final and conclusive.

The directors had power under Article 58 to give notice to any shareholder who was not a manager or assistant requiring him to transfer his shares at the "par value." On March 7, 1900, notice was served by the company under this article, as Mr. Borland was then neither a manager nor assistant. The "par value" of the seventy-three shares was about £8,650. The plaintiff alleged that, having regard to the amount of the dividend paid and the general financial position, the real value would be about £34,000. Mr. Borland had in fact sold seven shares about a year previously under the terms of the articles to a "manager" at £115 7s. 6d. per share.

It was claimed that the articles imposing restrictions upon the free transfer of the shares were repugnant to the legal conception of the nature of personal property.

In rejecting this claim Farwell, J., said:

A share is the interest of a shareholder in the company measured by a sum of money, for the purpose of liability in the first place, and of interest in the second, but also consisting of a series of mutual covenants entered into by all the shareholders *inter se* in accordance with Section 16 of the Companies Act, 1862. The contract contained in the articles of association is one of the original incidents of the share. A share is not a sum of money settled in the way suggested, but it is an interest measured by a sum of money and made up of various rights contained in the contract, including the right to a sum of money of a more or less amount. . . . These articles are nothing more or less than a personal contract between Mr. Borland and the other shareholders in the company under the 16th Section of the Companies Act, 1862. Mr. Borland was one of the original shareholders, and he and his trustee in bankruptcy are bound by his own contract.

The judge also observed that each of the other shareholders who came in afterwards exe-

cuted a deed of transfer which, in the terms in which it was executed, made him liable to all the provisions of the original articles. Farwell, J., continued:

"These shares can have no value ascertainable by any ordinary rules, because, having held, as I do, that the restrictive clauses are good, it is impossible to find a market value. There is no quotation. It is impossible, therefore, for any one to arrive at any actual figure, as to which it may be said it is clear that that is the value. . . . Having regard to the fluctuation in profits that has occurred, it is impossible to say the value can be ascertained upon a 10 or 20 per cent basis—that must be illusory. . . ."

What this case makes abundantly clear is that the real essence of a share consists in the "series of mutual covenants entered into by all the shareholders." Unless and until those mutual covenants contained in the articles have been examined and their legal and practical implications measured against the background of the company's history and prospects, no attempt can be made to value a share in that company. The importance of this was emphasised over thirty years after *Borland's* case in one of the best known of all cases on share valuations, *In re Percy Crossman (deceased)*. This case was concerned with the valuation to be made for estate duty purposes of shares in the well-known brewery company, Mann, Crossman and Paulin Ltd. It will have to be considered again later when dealing with valuations for estate duty, but what is of fundamental importance to all share valuations is the way in which the members of the Court of Appeal all took their stand on Farwell, J.'s, earlier definition of a share, quoting it with approval. The Master of the Rolls said: "The terms of the articles . . . determine in my opinion the nature and quality of the property to be sold," and Slesser, L.J.: "This view (that is, Farwell, J.'s) of the nature of a share is now held beyond question in this country." Romer, L.J., in fuller terms stated:

It is impossible to treat a share as

being an interest in the company's assets, or an aliquot share in the company's capital, and to regard the contract arising from and contained in the company's articles of association as a separate and independent thing. That contract and the rights and liabilities that flow from it are of the very essence of the share.

To these words may be added those of Lord Macmillan in the appeal to the House of Lords:

My Lords, a share in a joint stock company is an entirely conventional creation; the congeries of rights and liabilities of which it consists is the creature of the Companies Acts and the memorandum and articles of the particular company. Within the law the rights and liabilities appurtenant to a share may vary widely. But it cannot exist independently of the inherent attributes with which it has been created.

A glance at Table A of the Companies Act, 1948, containing the regulations for the management of a company limited by shares which are adopted by many companies, serves to emphasise these judicial opinions. The matters covered by Table A go to the very root of share valuations. At the risk of over-simplicity they may be considered under three main headings as follows:

1. The issue, transfer and transmission of shares with the rights attached to different classes and the power to vary those rights;
2. The control of the company's affairs exercisable by the members or delegated to the directors appointed in accordance with the provisions;
3. The right of the members to receive a share of the company's profits as disclosed by the accounts which are to be prepared and audited.

Any prospective purchaser of shares must study carefully these matters from two angles, first purely to ascertain the legal rights attaching to the shares and secondly to consider these rights against the practical background. He must, for example, first ascertain precisely what provisions govern the payment of a dividend and what control, if any, he himself may exercise over this. But that information alone does not carry him very far. It must be set against the practical background

of all that he knows or can ascertain about the company's affairs, so that he may assess the likelihood of dividends being paid. This assessment, which applies not only to the obvious matter of dividends but to a host of other matters affecting the value of shares, generally involves far more difficulties than does the mere ascertainment of the legal rights. Indeed, for this reason it is often all too easy in the course of negotiations to lose sight of the question of the legal rights altogether, but to do so is to expose oneself to many pitfalls, for it is to lose sight of the very essence of the thing which is being valued. Without the legal rights which are sometimes said to attach to the shares, but of which it would be more correct to say, in the words of Lord Macmillan, that the shares consist, there can be no share and therefore no valuation.

The valuation of any share must therefore begin with and be based on the examination of the legal rights and liabilities of which the share consists. It must then go on to a consideration of those rights in relation to all the practical information which can be derived about the past history, present standing and future prospects of the company, not only as disclosed by its annual accounts and reports but also as may be gleaned from any other source, financial and otherwise. The legal rights and liabilities must then be married with the practical information and an attempt made to measure the result in terms of money so as to arrive at a value which may be acceptable to buyer and seller. Attempts to value shares by the use only of partial information, as for example that disclosed in accounts, without a proper consideration of all available relevant information, are likely to go seriously astray.

#### Value of a Share

To trace the origins of the large industrial undertakings of today is always instructive. How did the Levers, the Liptons, the Morrisses begin? It is safe to assume that in every case the beginnings were in the form of the sole trader or the private

partnership. It would probably not be long before the many advantages of a private limited company became apparent. Here is an example.

In the later nineties, family affairs once more indicated changes in the business structure. More and more of the sons and daughters were demanding their share of the proceeds. This afflux of active and sleeping partners made it clear to the leading partners that the partnership was no longer the most suitable form for the business. Anton and the family lawyers turned their attention to the possibilities of the limited liability company based on two types of shares—preference shares for the sleeping partners and ordinary shares for the active partners. Thus was formed the first family limited liability company. Its incorporation was not due to lack of capital but to the family complications arising from the appearance of a number of new partners. It was nevertheless a more convenient form of organisation than the partnership for the control of the new complex of businesses which was growing up\*.

Sooner or later the shares in such a company would change hands, either by bequest or by sale, and when that happened a price would have to be fixed, whether for death duties, for stamp duties or for a cash transaction.

In spite of the growing number of private companies on the register, few shareholders are conscious of what is involved in the simple operation of signing a transfer leading to membership. They are in fact joining the equivalent of a club, but a shareholder seldom asks for a copy of the rules of the club, and indeed the company might be hard put to it to find one if he did. It is not surprising then that shareholders are ignorant of the value of their property.

An example may be given. Mr. A. was the sole proprietor of a private limited company. Mr. X. was an old and valued employee, and as a mark of personal esteem Mr. A. invited Mr. X. to become a director and presented him with 500 shares of £1 each. The present of the shares was more of a gesture than anything else, as no dividends were ever paid,

Mr. A. very reasonably taking the profits by way of remuneration. As the articles stated that a director must have 500 shares it never occurred to Mr. A. to have them altered; it was easier, more friendly, to make a gift.

In the course of time Mr. X. retired to the West Country and Mr. A. died. Many years later Mr. A.'s son realised that 500 shares were held by an outsider. He discovered that Mr. X. had also died, so he wrote to Mr. X.'s son offering him £500 for his shares. Mr. X.'s son welcomed the prospect of receiving £500 for shares which he had long assumed to have no value. However, being unskilled in such matters, he sought professional advice, as the result of which, and rather unwillingly, he wrote to say that he would accept £5 per share. Mr. A.'s son, considering that the shares had been the subject of a generous gift by his father, was incensed. He also took professional advice. After a long battle in which Mr. A.'s son's remuneration was called in question and action threatened under Section 210 of the Companies Act, an agreement was reached whereby £2 per share was paid. Neither Mr. A.'s son nor Mr. X.'s son had any idea of the value of the 500 shares.

While most shareholders in private companies remain content to receive what dividends the directors recommend, professional accountants are frequently asked: "What is the value of my shares?" as if there were some arithmetical formula whereby the value of a share can be computed. On rare occasions this may be so, as the articles may provide such a basis.

Take, for example, the following article: "At the ordinary general meeting in each year the company shall by resolution fix the fair value of shares for the purpose of sale notices. The fair value to be so fixed shall not be less than such a sum as, having regard to the dividends declared by the company in the three last preceding years, would give an average return of 5 per cent per annum thereon."

Thus if the dividends had averaged 5 per cent for the last three years the fair value would be not less than par,

\* *The History of Unilever*, by Charles Wilson.



or if they had averaged 10 per cent the fair value would be not less than 40s. for a 20s. share. As it would be improbable that anyone would value a share at more than the minimum laid down by the article, it could be said that in such a case an arithmetical formula existed.

This is unusual. If in the more normal case the accountant expresses difficulty in replying to the question of value, the shareholder may well add: "Just a rough idea will be quite good enough for my purpose." This footnote may be the result of an uneasy feeling that a professional fee is involved.

There is, however, no such theoretical value of a share in a private company, and when the question is asked: "What is the value of my shares?" it cannot be answered in the abstract, but must be related to the specific circumstances, either actual or (in the event of a probate valuation) hypothetical, of a shareholder wishing to sell a given number of shares for which there may or may not be one or more potential buyers. It would certainly cause such a shareholder surprise if the answer were given that there might be several different values.

The uninformed shareholder cannot be altogether blamed, as some old-fashioned articles include a clause that the auditor shall annually value the shares. The auditor can be of greater service when a seller has agreed to sell and a buyer to buy at a price which is left to be determined by him as an expert. At first sight it may seem that he is indeed being asked to compute something in the nature of a theoretical value by reference to a recognised formula, and strength may be lent to this view by the fact that it is frequently accountants on whom the task devolves. They are, however, merely being asked to arrive at a fair price or value as between the buyer and seller concerned, and the task falls to the accountant or auditor, not because he has the key to a magic formula but because by his intimate relationship to the company and his consequent knowledge of the affairs of the company he is the obvious choice. He can view the company

from outside with a proper perspective, but he also knows much of the day-to-day running of the company. Personal relationships, capacity of the management, efficiency, can all be sensed by the auditor. Moreover, his trade is in figures; he is accustomed to handling accounts, and his experience of the factors affecting share valuations suggests that he is the person most fitted to undertake this task.

There are, however, pitfalls. An auditor who tried to be helpful by supplying notes on his valuation was severely criticised by Harman, J. This case of *Dean v. Prince*\* will be referred to later, but although the auditor's valuation was upheld on appeal—"with reluctance" by two of the judges—there was no appeal on the preliminary point whether the auditor's valuation was open to criticism. Harman, J., said:

There is an article which provides . . . that his shares shall be purchased . . . at such a price as is certified in writing by the auditor to be in his opinion the fair value . . . and in so certifying the auditor shall be considered to act as an expert and not as an arbitrator. The auditors in this case issued a certificate . . . in these terms: "As requested we have valued the shares in your company as at November 6 in accordance with the requirements of article 9 (g). In our opinion the fair value for this purpose is £7 a share," and they signed that statement.

The plaintiff was dissatisfied . . . her solicitors took the matter up . . . and put a certain amount of pressure on the auditors to explain how they had arrived at the value. Eventually the auditors wrote as follows: "We enclose a few notes which we have prepared to show you how the points you raise . . . have been allowed for in our valuation in so far as we consider them appropriate. We trust that they will enable you to satisfy Mrs. Dean that £7 a share represented a fair value." . . . It is well settled that those who have a discretion, such as trustees who have powers to maintain and directors who have powers to admit members to a company, can maintain a silence which the Court will not oblige them to break; and that if they do maintain that silence no action will lie against them; but if they choose, for whatever reason, to

disclose the motives which impel them to their decision, the plaintiff may come to the Court to impeach those motives. It seems to me that that is analogous to what has happened here. It is true that the auditor was acting as an expert and that he had to arrive at what was his opinion about the fair value. It may well be that his opinion, although wrong in the eyes of others, may prevail; but if he has based himself on an entirely wrong basis and has chosen to explain that basis, I cannot see that the provisions of the article preclude the plaintiff from attacking it. . . . I repeat: if they had chosen to keep silent, I do not think that any Court would have obliged them to explain their reasons; but they have not been strong minded enough to do that. It is therefore open to the plaintiff to question them.

Harman, J., continued at a later stage in his judgment as follows:

The plaintiff was extremely dissatisfied with that valuation. She would in my judgment nevertheless have been powerless in the matter if the auditors had declined to expand their views. They should have remembered that silence is golden in a matter of this kind, and that, short of fraud or dishonesty, which no one attributed to the auditors in this case, there was no way of questioning that certificate if the auditors declined to give reasons for the result at which they had arrived. It was their opinion. Opinions may differ, but the members of this company had committed themselves, maybe unwisely, to be bound by the opinion of the auditors, and if these auditors gave an opinion which the members disliked or distrusted, so much the worse for them; they had made their bed and must lie on it. But, unfortunately for the defendants, the auditors did not keep quiet, and being pressed to explain how it was they arrived at what the plaintiff (who knew a good deal about this company, having acted as a bookkeeper and being the owner of the factory . . .) thought was an incorrect valuation, they answered . . . in the following letter . . .

Harman, J.'s, criticism should certainly put a valuer on his guard.

In making the valuation the auditor must attempt to evaluate what the buyer will gain by acquiring and a seller lose by foregoing the shares. This evaluation will certainly

\* 1953, 2 All E.R. 636.



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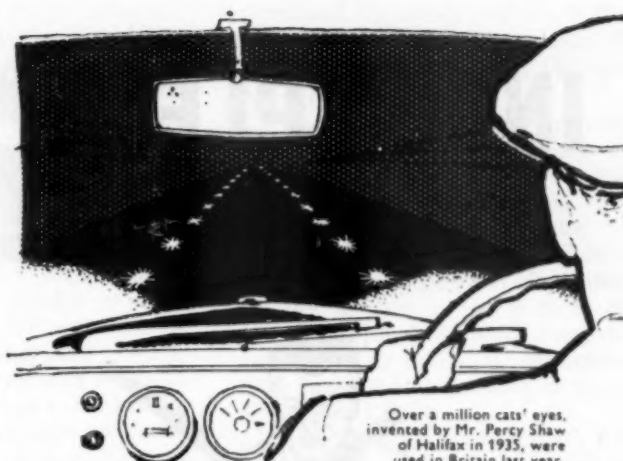
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vary according to the number of shares. A block of shares which will give the buyer control of the company are worth more to him than a block of shares which will not give him control. Similarly a purchase of shares which brings the purchaser's holding to over 25 per cent of the votes strengthens his position in that he can effectively stop the passing of a special resolution. Hence the prices offered for shares in takeover bids exceed those for normal day-to-day transactions on the Stock Exchange where no question of control is involved.

In the case of *Ocean Coal Co. Ltd. v. Powell Duffryn Steam Coal Co. Ltd.*,\* the Judge gave official recognition to the view that a sale of a certain number of shares might produce a different value per share from the sale of a greater number of shares.

The T. company's capital was 600,000 shares of £1 each. The O. company held 300,000 shares and the P. company held 300,000 shares. Article 39 (A) provided that any member desiring to sell any of his shares must notify the Board of the number of shares, the price, and the name of the proposed transferee, and the Board must offer to the other shareholders the number of the shares offered at the price, and if the offer was accepted the shares should be transferred to the acceptors. It also provided that "if the shares or any of them are not so accepted the holder may sell or transfer them or any of them at the same or any higher price . . . to a third party approved by the Board."

The P. company gave notice to the Board that it was desirous of selling 135,000 of its shares to third parties at the price of £2 per share. The Board offered the 135,000 shares to the O. company and the O. company desired to execute its option, as regards 5,000 shares only, at the proposed price. The P. company contended that the whole of the 135,000 shares must be accepted and that the acceptance of 5,000 shares was not good.

Farwell, J., said, referring to article 39 (A):

If the language is to be construed with complete strictness, the price proposed must be the price proposed for the total number of the shares; that is to say, it is the price per share, but it is a price calculated on the total number of shares which are being offered for sale. There may be . . . a considerable difference between the price at which the shareholder is willing to sell his shares, if he is desirous of selling a large or small number, and the price which he obtains for his shares may be only according to the number of shares he is proposing to sell. If one takes the illustration . . . of an offer of shares sufficient to give control of the company, it may well be that a purchaser would be prepared to pay a much higher price for a number of shares sufficient for that purpose, whereas he would not be willing to pay such a higher price if the number of shares was reduced below the necessary number. . . . The transferor says: "I am willing to sell 135,000 shares at a price of £2 per share." He is not, in my judgment, saying: "I am willing to sell one share at £2 up to the total number of 135,000." . . . It is an offer to sell 135,000 shares, and that is an offer which must be accepted, and can only be accepted, in my judgment, by one or more persons who conjointly say: "We will take a transfer of the 135,000 shares."

The valuation would also vary according to the personal circumstances of the parties. A buyer aiming at control of the company will be more anxious to buy shares which will see him part of the way towards his objective than a buyer who has no thought or desire for a control. Likewise a seller with taxation or death duty problems may be a more ready seller than one with no such problems.

For these reasons there can be no value of a share in the abstract, but, envisaging the circumstances of potential sellers and buyers, it should be possible to arrive at a fair value or price for a particular block of shares. That fair value or price will be an expression in monetary terms of the meeting place of the buyer's desire to buy and the seller's desire to sell.

Ignoring for the moment the private company, the desires of buyers and sellers of shares are

determined by many factors, some quite personal and others less so. A few examples of the more obvious personal factors are:

- (i) the objective of the investor, whether to make a quick profit in speculative shares, invest surplus funds temporarily with safety, provide a hedge against inflation by buying good equities, acquire control of a company, or a host of other aims.
- (ii) the necessity to sell a block of shares to provide cash for the payment of death duties, the expansion of a business, the meeting of some unexpected liability.
- (iii) the taxation position of the investor: for example, a surtax payer will seek untaxed capital accretion rather than a high yield of income which will be taxed; a small taxpayer will look for the best security compatible with the highest yield; or an investor exempt from tax will be shy of companies with double taxation relief which may restrict his repayment claim.

Amongst the less personal factors may be mentioned such matters as:

- (i) rates of interest, (ii) the general state of national and international trade, (iii) scientific developments and changes, (iv) government policies, actual or anticipated.

Where there is a ready market in shares on the Stock Exchange attention tends to be focused on the less personal factors, and it is probable that the forces of competition help to iron out the effect of the more personal ones, although they may sometimes be seen quite clearly in the effect of a buyer driving up the price of shares in a bid for control or a seller depressing it by trying to sell a large block of shares from an estate of a deceased person. Nevertheless, it has to be remembered that even the factors which have been classed as less personal are all subject to the personal judgment of potential buyers and sellers, and it is those personal judgments which in the end will determine how strong is the demand for particular classes of shares.

Where, however, a share is not dealt in on the Stock Exchange, the value has to be determined in some other way when the need arises. For example, if a shareholder in a private limited company wishes to

\* 1932, 1.Ch.654.



sell his shares, the articles may provide that the auditor is to fix a fair price at which the share should be offered in the first place to the other members of the company. The study of the various provisions in the articles of private companies relating to the price at which shares may be transferred reveals how widespread is the idea of this theoretical value of a share which can be fixed in the abstract. For example, a not uncommon provision in old articles (and it may still be operative if the articles have not been revised) read as follows:

At the ordinary general meeting in each year the company shall decide the amount at which the price shall be fixed for the purpose of transferring shares as provided by article — hereof for the following year. In the event of the company failing to fix such a price the company's auditors shall in writing fix the price of the shares and such price when fixed as aforesaid shall be final and binding and shall continue until another shall be fixed. Until the price shall be fixed the price of shares for the purpose aforesaid shall be the par value thereof.

One objectionable character of this provision should be apparent to all, for it aims at fixing a value once a year only, ignoring subsequent changes either in the affairs of the company or in the general economic position; secondly, no regard whatever is paid to the difference between one share and a much larger number; and thirdly, no account is taken of the probability of an accruing dividend.

A more modern form of articles reads as follows:

An ordinary share shall not be transferred otherwise than as provided in paragraph — of this article unless it first be offered to the members as hereinafter provided. The auditors or auditor of the company for the time being shall on the application of any member certify in writing the sum which, in their opinion, is the fair value thereof and his decision shall be final and binding on all parties. In so certifying the auditors or auditor shall be considered to be acting as an expert and not as an arbitrator and accordingly the Arbitration Act, 1950, or any modification thereof shall not apply. Any member desiring to sell an

ordinary share (hereinafter referred to as "a retiring member") shall give notice thereof in writing to the company (hereinafter referred to as a "sale notice") constituting the company as agent for the purpose of such sale at the fair value. No sale notice shall be withdrawn without the directors' sanction. The directors shall offer any share comprised in a sale notice to the existing members at the fair value, and if within twenty-eight days after the sale notice has been given a purchasing member is found, such purchasing member shall be bound to complete the purchase within seven days.

This provision is not open to the same objection as the one previously quoted, because it does provide for a valuation on the occasion of each transfer instead of once a year, but it has the demerit that the auditor may be required to certify the fair value of "a share" instead of being asked to fix a fair price for the shares to be transferred. It would seem that those who draft articles for a company often unconsciously provide difficulties for a valuer. In the case of *Dean v. Prince* there was an unusual article that in the event of the death of any member his shares were to be purchased by the directors. Another article dealt with the transfer of shares of any member desiring to sell and defined how the fair value should be ascertained:

The sum so estimated by the selling member shall, if approved by the directors, be the fair value, but in the absence of such approval in order to prevent disputes arising, the fair value shall be the auditor's valuation of the current worth of the company's shares to be made by him in writing at the request of the directors.

The irony of this clause is that, so far from preventing disputes, it led to one of the more celebrated cases in share valuation. It will be noted that the reference is to "the current worth of the company's shares", not to the fair price of the shares to be transferred, and it was this which caused Wynn-Parry, J., to say:

By article 9 (b) which deals with transfers among members *inter vivos*, it is provided that in default of approval by the directors of the sum estimated by the transferring member to be the value of the shares to be

transferred "the fair value shall be the auditor's valuation of the current worth of the company's shares." That language appears to me to preclude the auditor from placing any extra value on a block of shares because it constitutes or will, in the hands of the particular transferee, constitute a controlling interest.

By article 9 (g) it is provided that "in the event of the death of a member his shares shall be purchased and taken by the directors at such price as is certified in writing by the auditor to be in his opinion the fair value thereof at the date of death." In my view, as a matter of construction the same basis of valuation should be applied under this paragraph as under paragraph (b) and, therefore, no extra value should be placed on the shares because they may constitute a controlling interest. Further, as the auditor in my view has to have regard to the realities of the situation, he must take into account that the other directors, and not merely one of them, are bound to purchase the shares in question. It is true that the other directors are entitled to decide between themselves how they would take up the shares, but, as I see it, they need not arrive at this decision until after the auditor's valuation has been received. It follows from this that the auditor cannot assume that the shares will remain as a block and be transferred to one director.

It will be clear from this that the effect of such provisions needs very careful consideration before they are embodied in a company's articles. They may be contrasted with the following:

Subject to the provisions of article — hereof, before transferring or requiring the company to register a transfer of any shares, the person, whether a member of the company or not, proposing to transfer the same (hereinafter called "the retiring member") shall give notice in writing (hereinafter called "the transfer notice") to the company, that he desires to transfer the same, and the transfer notice shall constitute the company his agent for the sale of the shares therein mentioned at the prescribed price (as defined in article — hereof) to any member of the company or to any person selected by the directors as one whom it is in their opinion desirable in the interests of the company to admit to membership.

By the expression "the prescribed

price" used in these articles is meant the sum per share specified in the transfer notice as the sum which the retiring member giving such notice fixes as the fair value of the shares therein mentioned, and unless the intending purchaser, when agreeing to purchase those of the said shares which are to be purchased by him, requires the prescribed price of such shares to be fixed by the auditors as hereinafter mentioned. Where the transfer notice does not specify any sum per share as the fair value of the shares included therein (or in case the transfer notice is deemed to be given pursuant to any provision of these presents) the prescribed price of the shares to be purchased shall be the fair value of such shares; this fair value may be agreed between the proposing transferor and the intending purchaser within seven days from

an offer being made by the intending purchaser or (failing such agreement) such fair value shall be fixed and certified by the auditors for the time being of the company on the application of either party; such auditors to act as valuers and experts and not as arbitrators in so certifying and their decision to be final; accordingly the Arbitration Act, 1950, shall not apply.

The merit of this provision is that it enables the auditor to concentrate on the fair value of the shares included in the transfer notice, not the fair value of one share or all the shares. He is therefore given an actual transaction on which to work, and this enables him to visualise the market in which the transaction would take place with the potential buyers.

This concept of the market is of the greatest importance in valuing unquoted shares, either for purposes of an actual transaction or when shares have to be valued for estate duty purposes on the death of a shareholder, even though no sale of those shares may be in prospect at all. In these cases, as will be seen later, a hypothetical purchaser in an open market has to be imagined. Any idea that the value of a share can be settled by a formula without disagreement among experts must be dispelled by reading the judgment in the *Holt* case, in which four chartered accountants went into the witness box giving valuations varying between 30s. and 17s. 2d. The difficulties of share valuations could not be better demonstrated.

**In the approach to the European Economic Community, investigation of effects on particular businesses and action to be taken by them may well be as important as inter-governmental discussions. The main features of the accounting systems of the countries concerned are examined in this and subsequent articles in ACCOUNTANCY.**

## French Accounts

By P. D. Reynolds, C.A.

### Growing Interest

WHETHER BRITAIN MOVES quickly or slowly towards joining the Common Market, there is already an increase in our interest in companies on the Continent, especially among our nearer neighbours. There has already been a perceptible movement among more progressive British firms to establish subsidiary or associated companies in Europe, and this trend must accelerate. A natural consequence is that there is already a demand, which may be expected to increase greatly, for expert opinion on the published accounts of French companies.

Company law and practice, especially in relation to the publication of accounts, vary greatly from country to country. By and large, the law and practices of Common Market countries result in published accounts which are not only different from, but also less informative than, those prepared under the U.K. Companies Act.

### Translation of French Accounts

There is no really adequate Anglo-French dictionary of accounting terms. The accountant who wishes to translate the accounts of a French *Société Anonyme* may find J. L. Kettridge's *Dictionary of Commercial and Financial*

*Terms* more helpful than any other, but even this work does not adequately cover the particular jargon of the accounting world. The deficiency can only be made good by practice and experience, but for any given set of accounts further insight into the true meaning of particular and often unfamiliar entries may often be had by studying the report of the *Conseil d'Administration*. This report by the Board of directors to the members of the company is additional to the usual chairman's statement (*Allocution du Président du Conseil d'Administration*) and accompanies every set of published accounts. It elaborates specific items in the accounts, in much the same way as the auditors who have prepared the accounts of a U.K. company frequently report privately to the directors of that company. In addition, the auditors' report itself (*Rapport des Commissaires aux Comptes*) may give a good deal of factual information beyond the familiar assurances regarding the completeness of the audit and the accuracy of the accounts presented. Some reservations about the extent of the audit are expressed later in this article, but it is relevant to note here that the auditors' report does often set out the movements that have occurred during the year under the major balance sheet accounting heads.



## The French Balance Sheet

Exhibit 1 sets out a typical balance sheet of a French company together with a fairly literal translation into English. (Note that assets appear on the left hand side.)

Exhibit 1

A.B.C. S.A.

## BALANCE SHEET—DECEMBER 31, 1960

		NF.	NF.			NF.	NF.
ACTIF		'000	'000			'000	'000
VALEURS IMMOBILISEES							
Frais d'Etablissement	FIXED ASSETS	250					
moins amortissements	Initial Expenses	50					
	less amounts written off		200				
Immobilisations	Fixed Assets						
Terrains & Gisements	Freehold land & mineral rights <sup>1</sup>	3,600					
moins amortissements	less amounts written off	1,300					
			2,300				
Constructions	Buildings	26,000					
moins amortissements	less amounts written off	15,000					
			11,000				
Matériel & Outillage	Tools & Equipment	71,000					
moins amortissements	less amounts written off	48,000					
			23,000				
Matériel de Transport	Transport Equipment	1,300					
moins amortissements	less amounts written off	800					
			500				
Mobilier, agencements,	Furniture, fixtures &	8,900					
installations	installations	4,300					
moins amortissements	less amounts written off		4,600				
			30				
Immobilisations incorporelles	Intangible assets <sup>2</sup>	165					
moins amortissements	less amounts written off	135					
			7,700				
Immobilisations en cours	Plant under construction						
Autres Valeurs Immobilisées	Other Fixed Assets						
Prêts à plus d'un an	Loans for more than one year	9,040					
moins provisions pour dépréciations de prêts à plus d'un an	less provisions for losses	40					
			9,000				
Titres de participation (partie libérée)	Trade Investments (paid up) <sup>3</sup>	27,000					
Titres de participation (partie non libérée)	Trade Investments (not called) <sup>4</sup>	1,450					
		28,450					
moins provisions pour dépréciation	less provision for loss	1,000					
			27,450				
Avances sur fournitures (contrats d'énergie électrique)	Electricity deposits <sup>5</sup>	3,960					
Dépôts & cautionnements	Deposits & Guarantees <sup>6</sup>	40					
			4,000				
STOCKS	STOCKS						
Valeurs d'Exploitation	Trading Assets						
Matières ou fournitures	Raw materials & supplies	8,730					
Produits semi-ouvrés	Semi-finished products	920					
Produits finis	Finished products	6,200					
Travaux en cours	Work in progress	15					
Emballages commerciaux	Packing materials	215					
			16,080				
COMPTES DE TIERS	ACCOUNTS WITH THIRD PARTIES						
Valeurs Réalisables à Court Terme ou Disponibles	Short Term and Liquid Assets						
Fournisseurs, avances et acomptes versés sur commandes	Suppliers—payments in advance <sup>7</sup>	—	170				
Clients	Trade debtors	15,720					
moins provisions pour dépréciation des comptes "Clients"	less provision for bad debts	20					
			15,700				
Autres débiteurs	Other debtors	6,150					
moins provisions pour dépréciation	less provision for bad debts	150					
		6,000					
Comptes de régularisation actif	"Assets adjustment account" <sup>8</sup>	2,000					
			8,000				
COMPTES FINANCIERS	FINANCING ACCOUNTS						
Prêts à moins d'un an	Short term loans	800					
Effets à recevoir	Bills receivable	70					
Titres de placement et Bons du Trésor	Investments and Treasury Bonds	15,550					
Banques et Chèques Postaux	Balance at Bank and P.O. cheques <sup>9</sup>	3,750					
Caisses	Cash	100					
			20,270				
			150,000				

## PASSIF

## CAPITAUX PERMANENTS

Capital propre et réserves  
Capital social  
Primes d'émissions d'actions  
Primes sur apports et fusions  
  
Réserve Légale  
Réserves Facultatives  
Réserves de renouvellement des stocks  
Réserve spéciale de réévaluation  
Réserves résultant de dispositions fiscales

## Report à nouveau

Provisions pour pertes et charges  
Provisions pour risques  
Provisions pour charges

Dettes à long terme  
Obligations et bons à plus d'un an  
Autres emprunts à plus d'un an

## COMPTES DE TIERS

Dettes à court terme  
Fournisseurs  
Clients, avances et acomptes recus sur commandes en cours  
Autres Créanciers  
Titres de participation (solde à libérer)  
Comptes de régularisation passif

## COMPTES FINANCIERS

Obligations et Bons à moins d'un an  
Autres emprunts à moins d'un an  
Effets à payer  
Warrants et autres effets gagés à payer  
Bénéfice de l'exercice

## LIABILITIES

## FIXED CAPITAL

Share capital and reserves  
Issued capital  
Premium on issue of shares  
Premiums resulting from amalgamations  
Legal reserve<sup>10</sup>  
Optional reserves<sup>11</sup>  
Reserves for replacement of stocks<sup>12</sup>  
Special Revaluation Reserve<sup>13</sup>  
Reserves arising from fiscal provisions<sup>14</sup>

Balance on Profit and Loss Account brought forward<sup>15</sup>

Provisions for losses and expenses  
Provisions for contingencies  
Provisions for expenses

Long term debts  
Bonds & debentures exceeding one year  
Other long term loans

## ACCOUNTS WITH THIRD PARTIES

Short term debts  
Suppliers  
Trade debtors—Payments in advance  
Other creditors  
Trade Investments (Balance uncalled)<sup>16</sup>  
"Liabilities Adjustment account"<sup>17</sup>

## FINANCING ACCOUNTS

Short term bonds & debentures (less than one year)  
Other short term loans (less than one year)  
Bills payable  
Warrants & guaranteed bills<sup>18</sup>  
Trading profit for the year<sup>19</sup>

<sup>1</sup> The company's interests include mining.

<sup>2</sup> Patents, trade marks, etc.

<sup>3</sup> Shareholdings in subsidiary and associated companies.

<sup>4</sup> A similar amount appears among the liabilities as a contra. In U.K. accounts this would be dealt with by a note—see Exhibit 2.

<sup>5</sup> The company is a very large consumer of electricity and is required to pay a proportionately large deposit.

<sup>6</sup> These are similar to electricity deposits, on a much smaller scale for other supplies.

<sup>7</sup> Literally, "advances against orders."

<sup>8</sup> Accruals etc. not falling under any other heading and suspense account balances of a temporary nature: note the semi-contra entry for NF. 1,200,000.

<sup>9</sup> French business makes extensive use of postal orders.

<sup>10</sup> Public companies are required to set aside each year 5 per cent of the available (taxed) profit. This is accumulated in a statutory reserve until that account reaches 10 per cent of the nominal capital; after this, no further transfers are required until the issued capital is increased.

<sup>11</sup> Literally "optional reserves": these are, in fact, the direct counterpart of the revenue reserves found in a U.K. balance sheet. They may be applied as the members decide.

<sup>12</sup> These reserves comprise the increases on revaluation of certain stocks of important raw materials (such as steel) when these are written up in accordance with official indices published by the government from time to time. The effect is to exempt from taxation the profit on these inflationary increases.

<sup>13</sup> This account arises from writing up the company's fixed assets from time to time (to bring historical cost into line with replacement value) in accordance with official indices published periodically by the government (see Exhibit 3).

<sup>14</sup> Like revaluation reserves, these amounts arise out of the company taking advantage of tax exemption for other inflationary profits.

<sup>15</sup> The balance on this account is invariably small; it is the practice in France to distribute virtually the whole of the available taxed profit, and the amount carried forward usually represents a sum too small for convenient distribution.

<sup>16</sup> This is the contra referred to in note 4, Assets.

<sup>17</sup> See note 8, Assets.

<sup>18</sup> "Warrant" is a commercial arrangement not found in this country. It represents a security upon, for example, goods in warehouses, against which bankers will have advanced funds to the company.

<sup>19</sup> The trading profit for the year is stated after taxation and before providing for the plans for its distribution.



This balance sheet is modelled on the recent accounts of a substantial French company, but the figures, originally given to eleven or twelve significant digits, have been simplified drastically. The notes amplify the meaning of those items which are not normally paralleled in U.K. practice, and further comment on some of the more important differences is given below.

Exhibit 2 gives a simplified and anglicised version of a balance sheet developed from the more literal translation in Exhibit 1.

### Important Differences Between French and U.K. Balance Sheets

The *Société Anonyme* is not subject to anything like the U.K. Companies Act as we know it, and so there is no counterpart of the Eighth Schedule setting out what information must be given in the annual accounts. In place of this, a fair measure of influence on the presentation of accounts is achieved by the fiscal authorities; the *Société Anonyme* which complies with their recommendations can expect to pay less tax than those which do not conform. For this reason the *Bilan* (balance sheet) almost invariably follows the uniform layout of the *Plan Comptable*.

It is a further requirement of French law that a company's accounts should be drawn up consistently from one year to the next. This provision, together with the general application of the *Plan Comptable*, results in a fair degree of similarity (at least superficially) among French accounts.

### Devaluation of the Franc

The New Franc became effective from January 1, 1960. The New Franc is worth 100 Old Francs, and the conversion is a fairly simple matter, but the accountant who is concerned with published accounts straddling the years 1959 and 1960 should be on his guard. In some cases the balance sheet prepared at December 31, 1959, and the profit and loss account for that year have been set out in Old Francs while the section of the profit and loss account dealing with appropriations of profit has been shown in New Francs.

### Revaluation of Assets

Fiscal regulations in France discourage a company from revaluing its assets in the way that has been popular among some U.K. companies, especially as a precursor to bonus issues. In place of this it will be found that the majority of French companies have taken advantage of fiscal authority to revalue fixed assets in accordance with a Government-decreed set of indices. The latest edition of this table is reproduced in Exhibit 3. The revaluation is achieved by applying to the original book value (or historical cost) the index for the year of acquisition. Thus a piece of plant purchased in 1945 for 100,000 Old Francs would now be revalued to NF. 8,100 (1,000 NF.  $\times$  8.1, the factor for 1945); another piece of plant purchased at the same price in 1956 would now be valued at NF. 1,200, since the factor for 1956 is 1.2.

This revaluation of fixed assets is a well-established practice; but the introduction of the second set of

Exhibit 2

### ANGLICISED AND SIMPLIFIED BALANCE SHEET—A.B.C. S.A.

	NF. '000		Revalued "Cost"	Deprecia- tion	NF. '000 Book Value
Share Capital .. .. .	40,200	Fixed Assets			
Capital reserves .. .. .	3,000	Land and Mineral Rights .. .. .	3,600	1,300	2,300
Statutory reserve .. .. .	800	Buildings .. .. .	26,000	15,000	11,000
Share premium account .. .. .	12,000	Plant and Equipment .. .. .	71,000	48,000	23,000
	15,800	Transport Plant .. .. .	1,300	800	500
Revenue reserves—fiscal		Furniture, Fixtures and Fittings .. .. .	8,900	4,300	4,600
Stock replacement .. .. .	2,300	Under Construction .. .. .	7,700	—	7,700
Assets revaluation .. .. .	21,700		118,500	69,400	49,100
Other .. .. .	7,300				
	31,300	Preliminary Expenses .. .. .			250
Other revenue reserves .. .. .	1,200	less amounts written off .. .. .			50
Balance of undistributed profit from last year .. .. .	102				200
Profit for the current year .. .. .	3,805	Patents, trade marks, etc. .. .. .			165
	3,907	less amounts written off .. .. .			135
	92,407				30
Loan Capital		Loans .. .. .			9,040
Bonds and debentures .. .. .	21,000	less provision for loss .. .. .			40
Other long term loans .. .. .	12,000				9,000
	33,000	Shareholdings (see note) .. .. .			27,000
Current Liabilities		less provision for loss .. .. .			1,000
Trade creditors .. .. .	3,720				26,000
Other creditors .. .. .	8,100	Investments and Treasury Bills .. .. .			15,550
Bills and short-dated loans .. .. .	10,830	Current Assets			
Provision for expenses and contingencies .. .. .	493	Stock in trade .. .. .			16,080
	23,143	Debtors and payments in advance .. .. .			23,870
		Deposits with suppliers .. .. .			4,000
		Bills and short-dated loans .. .. .			870
		Cash, Bank and Postal Orders .. .. .			3,850
					48,670
					148,550
	148,550				148,550

Note: There is a contingent liability for NF. 1,450,000 in respect of calls not yet made on certain shareholdings in trade investments. [The elimination of this contra item from the original balance sheet accounts for the difference between the totals of Exhibits 1 and 2.]

Exhibit 3

## INDICES OF REVALUATION

## (1) Ratios applicable to tangible assets and relative depreciations:

Year of purchase	Year of purchase	
1914 and previous years	243	1937 43
1915	170.1	1938 38
1916	129.6	1939 36.5
1917	89.1	1940 29.3
1918	72.9	1941 26.8
1919	70.4	1942 24.3
1920	48.6	1943 17.8
1921	72.9	1944 16.3
1922	78.5	1945 8.1
1923	60.8	1946 5.1
1924	51.8	1947 4.0
1925	46.1	1948 2.3
1926	35.5	1949 1.9
1927	38.9	1950 1.6
1928	38.9	1951 1.25
1929	39.6	1952 1.15
1930	44.6	1953 1.20
1931	48.6	1954 1.25
1932	56.8	1955 1.25
1933	62.4	1956 1.20
1934	64.8	1957 1.15
1935	72.9	1958 1.05
1936	60.8	1959 1.00

## (2) Ratios applicable to shareholdings:

Year of purchase	Year of purchase	
1914 and previous years	388.8	1937 68.8
1915	272.2	1938 60.8
1916	207.4	1939 58.4
1917	142.6	1940 46.8
1918	116.6	1941 42.8
1919	112.6	1942 38.8
1920	77.8	1943 28.4
1921	116.6	1944 26.0
1922	125.6	1945 13.0
1923	97.2	1946 8.2
1924	82.8	1947 6.4
1925	73.8	1948 3.6
1926	57.8	1949 3.0
1927	62.2	1950 2.6
1928	62.2	1951 2.0
1929	63.4	1952 1.65
1930	71.4	1953 1.60
1931	77.8	1954 1.40
1932	90.8	1955 1.20
1933	99.8	1956 1.15
1934	103.6	1957 1.10
1935	116.6	1958 1.15
1936	97.2	1959 1.00

These indices were promulgated by Decree No. 60.243 of March 19, 1960.

indices, applicable to the cost of shares in other companies, is quite new. It is clearly advantageous to write-up the value of fixed assets, since fiscal depreciation allowances are increased in proportion, but it is not so easy to see a company's incentive to increase the book value of its portfolio of investments in other companies.

The merits of revaluation by indices of inflation are debatable. Every accountant will be able to find among companies familiar to him one or two whose fixed assets have altered in value (as evidenced by expert revaluation) in a way quite incompatible with the general trend of monetary inflation. On the other hand, anyone concerned with analysing published accounts from the point of interfirm comparison will be pleased to know that in this particular respect the accounts of most *Sociétés Anonymes* are prepared on a uniform basis.\* It is interesting to

\* The presentation of balance sheets on the uniform basis in accordance with the provisions of the *Plan Comptable* is compulsory only on those companies which have revalued their balance sheets under the provisions of the fiscal laws, and on certain companies prescribed by law. Revaluation is compulsory on certain categories of companies but not on all.

consider that when comparisons of employed capital are made between U.K. companies it is common practice to write back any individual revaluations which have been made from time to time, so that less distorted comparisons can be made on the basis of historical cost.

Accumulated depreciation must be inflated by the same factors as those which are applied to assets. The net result will, of course, be an increase in the book value of the assets and this is counterbalanced by an entry which appears in the *Passif* (liabilities side) of the balance sheet under the heading *Réserve Spéciale de Réévaluation*.

#### Comptes de Régularisation (Literally, "adjustment accounts")

Items appearing under this head on either side of the balance sheet represent in the main calculated (as opposed to invoiced) proportions of accrued charges and income, and receipts and payments in advance which do not fall more properly under any other head. It should be noted, however, that this description can also cover suspense accounts and any other awkward balances.

#### Reserves

Unlike those of the U.K., French company accounts are usually published in the form which is accepted by the fiscal authorities for taxation purposes. Any adjustments comparable to those which the Inland Revenue would require to have embodied in a separate (and private) computation of taxable profit are normally reflected in the published accounts of the *Société Anonyme*. Consequently a number of special reserves appear under the *Passif*.

The *Réserve spéciale de réévaluation* has already been commented upon. Similar principles are applied to inflationary increases in the value of stock-in-trade and certain basic raw materials. The tax-free gain may be reflected as *Réserves de renouvellement des stocks* or as *Dotation pour stock-outil*. Comparable practice in Britain seems rare, though I believe a similar principle may have been conceded to the cotton industry, where the "clothing" of machinery (that is, the cotton necessarily on the machines between input and output whenever the plant is to operate) was allowed to remain at an historical value, thereby avoiding the taxation of an unrealised and unrealisable "profit."

#### Réserve Légale

Every *Société Anonyme* is required to set aside each year, as a first charge against the profits otherwise available for distribution, 5 per cent of those profits. This sum is taken to a "statutory reserve" until that account reaches 10 per cent of the authorised share capital. When this has been achieved no further appropriations to the *Réserve Légale* are required until there is an increase of capital.

#### Consolidated Accounts

The French do not prepare consolidated accounts. Even the largest industrial group will issue accounts for the parent company alone, so that there is no indication of accumulated profits (or losses) in subsidiaries. A recent law does, however, require that certain companies (in

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<sup>8</sup> Tax on the capital gains resulting from the sale of assets for more than their book value is avoided by reinvesting the surplus within three years in similar assets. A company may not always be in a hurry to make this reinvestment—for example, if the assets sold were government securities originally acquired perhaps as compensation for an electricity generating station taken over by the State.

### Distribution of Profits

Whatever reservations one may have about the completeness of the profits figure disclosed in the published accounts of a *Société Anonyme*, this profit is normally distributed in full, subject only to rounding-off for the convenience of dividend payment. The usual pattern of distribution of the profits is as follows:

Legal Reserve	5 per cent
Statutory dividend	5 per cent or 6 per cent

To the balance remaining is added the (invariably small) balance on profit and loss account brought forward from the previous year. This is then rounded-off to a convenient sum by carrying forward a small balance to the next year, and the remainder may be distributed, if authorised by the *Statuts* (Articles of Association), thus:

<i>Tantième</i>	10 per cent
Super-dividend	90 per cent

The ordinary shareholder may thus have his annual

dividend calculated in two parts, rather like the participating preference shareholder of U.K. practice.

The *Tantième* is a bonus or commission fund distributable among the *Conseil d'Administration*. As it is conditional upon the prior payment of a statutory dividend, an effective incentive to profitable management is provided.

### Conclusion

Much of the comment given here emphasises the difficulties inherent in attempting to present French accounts in English form and language, rather than indicating many conclusions that can be drawn with assurance from the published accounts of a *Société Anonyme*. This situation can be expected to improve with experience as more accountants learn to be multilingual in professional matters, and as legislative reforms tend to bring uniformity among the members of the Common Market.

The possibility of our entry into the Common Market makes it more important now than ever before that British manufacturers should possess the means of comparing their efficiency with that of others. Already our high costs are a limiting factor as regards exports. But how can information be exchanged which will enable us to pinpoint our weaknesses? In this preliminary survey Mr. L. Taylor Harrington, Deputy Director of the Centre for Interfirm Comparison, attempts to answer the question: "What is to be compared?"

## Interfirm Comparison—A Guide to Efficiency

By L. Taylor Harrington

### The Process of Interfirm Comparison

INTERFIRM COMPARISONS HAVE now been carried out in some thirty different industries and trades in this country. In other parts of the world also there is a growing use of this technique; it has had widespread application in a number of the continental countries which are members of the European Common Market, and with whose industries we may soon be competing on closer terms. This therefore seems an appropriate moment to review the objects, procedures and uses of interfirm comparison; since accountants and accountancy have an important role in the working of interfirm comparisons, this review of the subject should be particularly interesting to readers of this journal.

It is useful to start with a definition of interfirm comparison (which can be called for brevity "IFC"). The best

definition is: the provision to the management of a concern of information which enables it to assess how its performance compares with that of other similar concerns, and to ascertain the main reasons for any differences in performance. Such a comparison involves companies in pooling data about their operations with a suitably qualified neutral "trustee body" such as the Centre for Interfirm Comparison; the data are contributed under agreed conditions of anonymity, security, and uniformity.

Several features of IFC, as defined above, distinguish it from other exercises in which data are obtained from companies. First and foremost, the collection of the data is only a means to an end, and that end is to give back to the management something of tangible help—something which enables specific management problems to be over-



come. Thus the needs of the manager-user should be at the forefront of any good scheme. Secondly, the whole exercise is a purely voluntary one; and thirdly, it is carefully planned so as to ensure as far as possible that the resulting figures are meaningful, accurate and comparable. This third requirement usually means that the use of data from ordinary profit and loss accounts and balance sheets is to be avoided.

The conduct of an IFC usually involves three stages. First, the preparatory stage: the objects of the scheme are formulated, the measurements to be used selected, the participation of companies obtained, and arrangements made for collecting data. At this stage those conducting the comparison should visit all or some of the participants. The second stage is that of data collection. This may be done by means of a questionnaire containing definitions of all the accounting and other terms involved, and so laid out that each company can assemble the relevant items under the same headings. In preparing such a document the advice of knowledgeable accountants in the industry is always sought; further visits to concerns sometimes take place at this point. The third stage is that of checking the data, raising and settling queries with participants, processing the information and preparing a report (usually for circulation to participants only). This shows all the figures in ratio and percentage form and under code numbers; if there are too many participants for this to be desirable, medians and quartiles only may be shown. Together with the figures, background information is provided on features of concerns—such as products made, or size—which may have a bearing on their figures. It is therefore possible for the user to compare himself with the other most similar concerns within the same trade, and also to see what effect their different features seem to have on results. Reports on the Centre's schemes also contain interpretations and other material intended to make the results of the scheme more useful to the manager.

I have described these as "stages" in IFC; in fact, they are really preliminaries, since only when all this has been done can the real interfirm comparison begin—managers now have the data they need to make their efficiency tests, judge the standing of their company and spot its weaknesses and strengths.

#### What is to be Compared?

Suppose a number of concerns in industry wish to take part in a comparison. Obviously the first question to be decided is: comparison of what? The possibilities are enormous: we might compare their productivity, their costs, the quality of their labour relations, their rates of growth, their profits, their capital equipment, their shares of the market, the salaries paid to their accountants—in fact almost anything about them, from their profits to the spare-time hobbies of their senior executives.

If we were comparing horses, not companies, we could select the "best" by a down-to-earth test—which horse could cover eight furlongs fastest. But this kind of experiment is not open to us, even if the managing directors are racehorse owners or, better still, athletes. What kind of

data, then, are we to choose for comparison?

One way of expressing the performance of companies is in the form of management ratios—figures expressing key relationships upon which the success of a business depends. Examples are the ratios of current assets to liabilities; of cost items to total cost; of profit to sales; of output to employees. Ratios of this kind are much more indicative than absolute figures: for example, two companies may have a profit of £10,000 each, but if the first has a sales figure of £100,000 and the second one of £1 million, then the profit figures are given a completely different meaning. Management ratios also have an advantage for IFC purposes in that they provide yardsticks of the performances of companies without revealing their identity by the disclosure of absolute figures.

The decision to use management ratios does not, however, solve the problem; the possible number of different ratios is also great. In Table 1, for example, I have put down more or less at random fifteen components from which one could construct ratios. Most of the resulting ratios are, I think, significant.

Table 1: The "Proliferation" of Ratios

The Components			Number of Ratios (Cumulative)
Sales	Production costs	Profit	3
Employees	Current assets	Man-hours	15
Administrative costs	Stocks	Current liabilities	36
Fixed assets	Marketing costs	Floor area	66
Debtors	Output	Creditors	105

As will be seen from the table, 105 ratios can be constructed from these fifteen components. If an IFC had to bear the burden of so many figures it would collapse under its own dead weight.

Faced with this vital problem of data selection, we at the Centre for IFC proceed by asking three main questions. First, for what level of management are the results of the comparison intended? Second, what are the best yardsticks of success for management at that level? Third, what factors affect this success, and how can they be measured?

It commonly happens that the answer to the first question is: top management. This is partly because comparisons must start somewhere, and the top seems the appropriate place; partly because a top comparison of this kind enables one to review the whole of the activities of a company and indicate priorities for attention. Suppose, then, that we wish to produce useful comparative data for the managing directors of participating companies. The responsibilities of such people extend to the company as a whole; their role is to ensure that all

resources are used to the best effect. This suggests the answer to our second question: we want a yardstick of success which will indicate results achieved by each company in relation to resources available. The ratio of profit to assets employed is a good indication of this.

The third stage would in this case be that of ascertaining and measuring the factors affecting relative profit on assets. A diagnostic set of ratios can then be chosen accordingly. The Centre works in terms of a more or less standard set, which will be discussed in my second article.

If the answer to the first question had been that the comparison was intended for, say, production management, then obviously the primary ratio (and subsequent ones) would be different. For example, the first ratio might be that of production cost per unit of output. Alternatively, those concerned with the details of shop floor operations might be better served by figures showing how long it took to complete a certain specific product, operation or process. A comparison of man-hours required per unit of output, and the factors affecting this, would then be appropriate. These are examples of the considerations which determine whether a comparison should deal with top management ratios, or with particular aspects of operating performance measured in terms of costs or physical units.

#### The Return-on-Capital Test

It is worth pausing at this point to discuss this matter of the "top test." For efficiency comparison purposes, the "capital" part of the ratio is best measured in terms of assets employed or available, rather than of the sources from which they are provided. It is important to ensure that the primary ratio of profit to assets employed is measured comparably as between one concern and another. In practice the chief difficulties arise in the measurement of fixed asset values (comparable stock valuations sometimes also raise problems, but to a lesser degree).

It is not necessary, I presume, to argue why book values are usually unsatisfactory as indications of the relative worth of fixed assets as between one company and another. The problem is: how can we obtain figures which will represent the actual current values of the assets available to management during the period covered? At least two bites at the cherry are necessary. For *land and buildings* our approach is often based on capitalisation of the net annual value of the properties to obtain a notional and comparable capital value. The N.A.V. figures, though not perfect for this purpose, have the advantage that they are arrived at by the Land Valuation Office on the basis of similar valuation principles throughout the country. They are also readily available without trouble or expense.

For *plant and machinery* no rules can be laid down; but it may be helpful to mention some methods currently being applied by the Centre. In some cases it is possible to use figures reflecting the cost of replacing the plant in its current condition. Such information may be available in companies' fire insurance policies, or as a result of

valuations undertaken either specially for IFC or for some other purpose. A second approach is to use price indices to bring the original cost of the machinery up to present-day sterling values, subsequently writing down the figures to allow for the age of the plant in question. This method, which has successfully been used in a number of the Centre's schemes, is simple to apply; it may not, however, be suitable if participating companies have much very old plant, and if their records do not show the years in which their plant was purchased and how much they paid. A third alternative is to refer to the new replacement cost of the plant (often available in fire insurances) and to write this down for each company by a factor which takes account of the average age of the plant actually possessed by it in relation to expected total life.\* One way of arriving at the "age" is to ask each company to indicate the percentage of its plant which is ten, twenty, thirty years old, and so on; a refinement may be to "weight" the percentages according to the values of the constituent parts of the plant in question. Other simpler approaches to the question of a suitable factor by which to write down the new replacement cost are being developed by the Centre, and it is hoped that they may be of widespread applicability.

Allied to this question of plant and machinery valuations is that of depreciation as a cost. The treatment of this is usually closely linked to the particular method of asset valuation adopted; each participant is asked to charge a standard depreciation rate (as a cost) either on the basis of whatever current value of the assets is being used, or on a new replacement cost basis. There are, of course, sound reasons for preferring the latter.

Although there is something to be said for measuring profit after rather than before tax (for example, it may be thought part of the job of management to minimise tax liability), in practice the before-tax figure is usually taken. This is partly because the picture is not then confused by tax payments or liabilities arising from earlier periods.

In measuring profit on assets, several other points have to be decided—for instance, the extent to which cash holdings and outside investment are to be included under "assets employed"; the treatment of hired assets; whether to calculate the return on gross or on net assets; whether or not to charge interest payments before arriving at the profit figure. The correct answers are to some extent matters of principle, and to some extent they are determined by the features of the particular industry or trade in question. Space does not allow me to deal with them in detail here;† but in general the primary ratio used in the Centre's work is that of profit (after all charges except tax) in relation to total assets available (excluding outside investments).

\* For assessing the value of resources *actually* available, new replacement costs are not, of course, suitable.

† The points are dealt with more fully in the author's recent paper to the Manchester Statistical Society: *Problems of Using "Return on Capital" as a Measure of Success* (Manchester Statistical Society, 1961).



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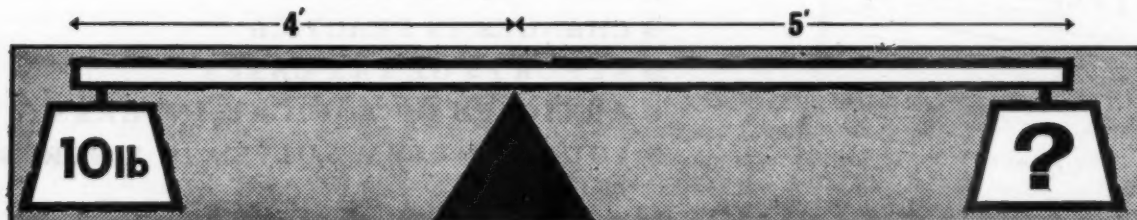


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PERHAPS THE MOST successful slogan of the post-war years (if we may assume that success in a slogan is measured by counting the heads of the people who know it) has been "Drink a pinta milka day". It may have made us drink more milk, and "pinta", we are given to understand, is to appear in the new edition of at least one famous dictionary. We are even now being exhorted to "Drink a winta pinta"; and at least we all know what the exhortation means. No one, after these past few years, is going to think of beer in this context.

One of the more surprising products of the campaign has been the anger it has produced in many citizens, some of whom have written Letters to Editors about it. What foreign language is this? Why should the great British public be addressed in baby talk? How can we teach children English when the advertisers encourage them in base usages? One must respect the protesters: care for the English language is not so widespread that any who observe it can be lightly dismissed. But one may fairly wonder whether in this instance the indignation is justified. Especially one wonders about the children, whose perennial delight it is to play about with words. They are surely, of all the population, the most likely to get the point, and to enjoy it; and this entails knowing the "correct" foundation on which the slogan is based.

English is, or should be, the concern of all of us, whatever our vocation. Accountants, who so largely use another, more precise, language, must yet use English also, and are helped in doing so by the precision of their training with figures. But there is much more to worry about than the pintas of the advertisers, and some find more cause for alarm and despondency in the writings of the literate than in the crisper vernacular. We may well deplore the progressive debasement of good

words by advertisers seeking new superlatives. "Glamour" has gone, "fabulous" is well-nigh meaningless. But it is the natural tendency of language to popularise, and so largely to debase, particular words, and English is so extraordinarily vigorous a tongue that it can survive now, as it has survived in the past, a great deal of popularisation. And unfortunately a great many people who should know better do in fact fall down in a variety of unbecoming guises. Mr. John Connell, in the first issue of *The New Strand*, says of "Establishment language" that it "differs greatly, in vocabulary, style, arrangement and texture, from non-Establishment language." It is certainly no less important to be careful with Establishment language, which all of us in this present company write, than to concern ourselves with the non-Establishment variety which, in its "pith and force," to use Mr. Connell's phrase, is unfortunately beyond most of our capacities. Unfortunately Establishment language is fuller of traps than the other kind, and covers much cotton wool and carelessness.

In vocabulary the literate are not above reproach—as for example when *The Times* dramatic critic allows himself to write "He has a way of enthusing key local personages," or when *The Economist* has:

His valedictory comes at a moment when every economist is writing about growth—the very egghead level attained by the fifteen academic model-makers whom he mentioned and others of their ilk.

"Egghead" (like "pinta") may be slang but it has the virtue of vigour and immediacy. But "ilk" is unforgivable and has no virtue whatever. And "enthuse", abominable without an object, is even worse when it has one.

The parts of speech become undisciplined, as when a reviewer writes, "Just as the Americans, we

are flattered into believing that we can buy anything. . . ." Punctuation has its snares, and another reviewer was trapped by one of them:

[The book] begins in 1722 with the field set for the realisation of Walpole's ambitions and ends after the General Election of 1734. . . .

In the absence of the comma after "ambitions", hands up all those who tried to read "Walpole's ambitions and ends"!

And of course carelessness can produce some odd meanings, or absence of meaning. There is a distinct jolt here:

. . . as Britain has got richer it has not bought more flowers. The owners of flower shops—whose working day usually begins at 5 a.m. in Covent Garden—complain that, with more and more wives going out to work, fewer people have them in their houses.

And what is one to make of this?

Last Thursday Sir Lionel Heald, after voting first that Mr. Wedgwood Benn should not be heard at the Bar in his own cause, and voting again later against an amendment to the Report of the Committee of Privileges to bring in fresh legislation to deal with renunciation of peerages, now seeks to give advice to Mr. Wedgwood Benn as to his future conduct in the name of "all those who value the reputation of the House of Commons," and to desist from any further effective action.

No doubt it was the heat of the moment that blew the several fuses that seem to be burnt out in that sentence; and the heat of the moment can make the most careful of us slip. The wise man views the slips of others in a spirit of humility: yesterday he may have slipped himself, and not known it; tomorrow he may slip again. (Perhaps it is their irritable absence of humility that makes the "pinta" objectors less endearing than they might otherwise be?) None of the horrid examples in this article is from ACCOUNTANCY, but ACCOUNTANCY (to say nothing of Accountant at Large) has been known to err. We must all be vigilant; but we need to be alert to detect the well-dressed fraud rather than to kick the honest barrow boy.

An address presented at the Summer Course of The Institute of Chartered Accountants in England and Wales held at Christ Church, Oxford.

## The Problems of a Group upon the Acquisition of Companies

By R. O. A. Keel, F.C.A.

### I. Introduction

THE ACQUISITION OF companies by groups is a matter of considerable topical interest. It is also a subject where perhaps more should be known of the forces and factors which make for acquisition, and of the many aspects which are involved in the carrying through of any particular transaction. In the wide ranging consideration that follows emphasis has been laid upon underlying principles; legal and other controlling requirements; the experience of the commercial scene; and a number of points of controversy as yet unresolved.

This is a field of operation in which developments are taking place continuously. The contents of this paper represent a review of the situation as we find it today. It is aimed to pass on some hard-earned experience; to put the various problems in their respective places; and to stimulate thought and discussion for the better regulation of acquisitions in the future.

### II. The group

It is becoming more and more commonplace to find companies today trading as groups or as part of groups. This is a trend which has many causes, but is nonetheless one which is "fashionable." Even very small concerns go out of their way to organise their affairs to become the "x" group, a step which it is believed enhances their status. The main way in which many companies become groups is by the acquisition of other businesses.

#### *Defining the group*

In the sense that we are considering the matter here, a group may be defined as an association of companies under common control. Often this involves the existence of a principal parent or holding company which has acquired, directly or

indirectly, a controlling interest in other companies. Groups do, of course, arise by the splitting of a unit into departments and the development of those departments into business divisions which may or may not be incorporated as separate



Mr. R. O. A. Keel, F.C.A.

legal entities. Also an individual could control a group by separate personal holdings in various companies. There are other forms of groups, such as trade associations or similar loose mutual organisations, which, although coming within the general meaning of the word, are generally excluded from the considerations in this paper.

#### *The trend towards the group*

In the worldwide political, economic and industrial expansion which is unfolding before us lies the impetus and the pattern of the trend towards the group. Industrial growth, in which the group formation is playing such an important part,

was recently the subject of a study made by the Stamford Research Institute of America. Many features were revealed which showed that group formation was taking a significant part in the process of growth. In particular the following were shown to be particularly apparent in 200 groups selected for their exceptional expansion:

- (a) Organising of programmes for seeking and promoting new business opportunities, involving acquisitions, the splitting and reforming of groups as well as the forming of new organisations.
- (b) Orientation to growth fields and markets, often with incursions into new fields of development through the acquisition of companies.
- (c) Improvement of competitive ability in present lines of business from the growth and the strength of a group formation.
- (d) The existence by reason of the group form of courageous and energetic management willing to take carefully considered risks.

#### *The advantages and disadvantages of a group*

The main advantages of the group form are:

- (a) The pattern of a group allows for a spread of interest, a diversity of experience, a broadening outlook on all problems and an increasing awareness of all possibilities. This gives management greater encouragement to take calculated risks.
- (b) It enables decentralisation of responsibility, which in turn allows local autonomy. Such arrangements afford first-class training for top management, and give optimum opportunity for initiative.
- (c) Better individual prospects together with the probability of better rates of remuneration will attract the best brains and services available.
- (d) Greater efficiency and power can arise through the establishing of horizontal groupings (that is to say, across an indus-



try) or vertical groupings (that is to say, down through a number of successive industries).

(e) By grouping a diversified set of businesses a balance can be obtained as an insurance against fluctuations which must naturally occur in any individual trade given a sufficient period of time.

The group form and its increasing prevalence has significant dangers and disadvantages, and these are:

(a) There could be a concentration of control of wealth in fewer and fewer hands, and this might be against the public interest.

(b) There is a tendency for the stifling of personal initiative, and against the growth of the small business, run perhaps by men of ability and ideas.

(c) There is developing a management class (men with professional skills who alone are able to handle large and complex concerns) which has little financial stake in the business concerned apart from their positions of employment—the business often belonging to a relatively unprotesting and often unrepresented body of shareholders.

(d) There is a strong possibility, unless extreme vigilance is exercised, of the development of bureaucracy of the worst kind, involving a lack of consideration for the employee, the consumer and the shareholder, other than in a most impersonal way. (These charges have been levied against our nationalised industries, and these of course are in themselves grouped businesses.)

### III. Why businesses are acquired

The National Institute of Economic and Social Research discovered, on a recent analysis covering the years 1949/53, that it was not liquidation but acquisition by another company that was the major cause of corporate "death." Acquisition of a company may take place when that company is in a weak position, but it may also take place if the company is in a strong position and desires to reinforce itself by association with another company. Acquisition in the latter case is then nothing but a special form of merger of interests. In the National Institute's analysis, of the eighty-one companies dying by acquisition in the period 1949/53, only ten were making a trading loss in any year between 1949 and the year of their acquisition. With the exception of three further companies, all the remainder (that is, sixty-eight of the eighty-one companies) had been paying dividends to the owners of their equity for every year in the period in which they were independent. For the greater part therefore it seems that "death" for these companies should not be regarded as a sign of failure but rather

as a step towards a new (and perhaps better) form of life.

#### General factors

Acquisitions and mergers have been a feature of commerce since its earliest beginnings. In effect, most large British companies have grown to their present size in this way. The process of acquisition is a natural one in a system of free enterprise, and, since it is generally based on the best utilisation of physical capacity, managerial experience and available labour, it probably has in the majority of cases proved to be in the national interest. The joining together of near equal units, which is the essence of a merger, commonly comes about out of what are natural business associations.

The following are the major reasons which are usually put forward in support of an acquisition or of a merger:

(a) To put the physical assets and personnel available to more effective use.

(b) To rationalise the businesses, particularly in times of depression or of acute competition or where large-scale contracts are involved.

(c) To save capital expenditure through avoidance of duplication of effort.

(d) To reduce the number and variety of products produced.

(e) To effect research and development in a period of rapid technical advance. The burden of this initially non-productive expense can often be considerable, and may possibly only be borne by the large concerns.

(f) To achieve the economies of optimum size by immediately obtaining a much larger manufacturing base than the merging companies could provide independently.

(g) To eliminate competition.

(h) To form bigger units to face strong overseas competition, often under the active encouragement of the Government, as has happened in the aircraft industry.

#### Post-1945 developments

Nationalisation, a rapid fall in the value of money and a high level of taxation have been major recent causes in the process of acquisition. These factors have tended to make acquisition more than usually attractive, especially where share prices have failed to reflect the current value of a company's underlying assets. In this connection the rise in property values has a particular significance.

After the 1939/45 war many British businesses disappeared overnight under a tide of nationalisation. Collieries, public utilities, transport and steel came under public ownership, and vendors were left with compensation and occasionally some small part of their original

assets. As a result of the Transport Act, 1947, my own company, Thomas Tilling Ltd., sold its transport interests to the British Transport Commission in 1948 for £24,800,000. The capital profit of £21 million was substantially distributed to the stockholders, leaving a few non-transport assets (mainly shares in various subsidiaries and property) and about £4 million in surplus funds. The original four main subsidiaries employing 2,000 people has today grown to twenty-eight main companies with over 18,000 on the payroll. The surplus funds in 1948 were all used up by late 1952.

Companies which had had their undertakings nationalised were not alone in having surplus funds. Others in industries such as cotton (with a changing economic scene) also were concerned to re-invest. As this re-investing gathered tempo, so many others with a supply of relatively liquid assets were reminded of the desirability of putting their funds to earn a better return. Much of this money was applied in the acquisition of other businesses.

#### The formula for acquisition

The mathematics of success for this re-investment were simply to use existing liquid or other resources not earning an adequate return (or alternatively to borrow money at a low rate) and to invest in less marketable equities of smaller organisations at a yield to show a margin (and often a substantial margin) over the cost of the finance involved. When resources (either existing or borrowed) became scarce—and this was particularly so during the time of the credit squeeze and when there was a severe restriction on capital issues for cash—acquisitions were often effected on a share-for-share basis.

An interesting factor which emerges is that as the earnings contributed by the acquisition improve so will the quotation for the acquirer's shares, which in turn makes for a reduced cost for future acquisitions on a share-for-share basis. The obvious mistake for the acquirer to avoid is the dilution of his finances by involving himself with acquisitions which yield earnings at a lesser rate than the rest of the acquiring group. There are other dangers too for acquirers, despite the seemingly favourable terms which are seen day by day. Subsequent success with an acquisition depends among other things on good management relations, the development of successors in management and the provision of additional resources for developing the acquired concern. Often, retained profits and the additional moneys added to an existing

business never achieve the same scale of return that the original purchase initially promises. I am sure that an economist would read into this state of affairs lessons on the effect of inflation and the law of diminishing returns, while a psychologist might place a good deal upon the loss of incentive which the security of a group brings. Where subsequent difficulties with an acquisition arise as a result of trade recession or on a failure of management to carry out their tasks adequately, corrective action is much more readily applied where there is other management with "know-how" of the trade of the acquisition in difficulty. This of course presupposes that such other management has not only the knowledge and ability but also the time to come to the aid of the company in trouble.

*The private company vendor's incentives*  
The main incentives for the vendor of a private company may be classified as:

- (a) financial
- (b) fiscal
  - (i) general
  - (ii) estate duty and surtax.

On the sale of a private company various financial advantages accrue, some to the vendor and others to the company itself. These may be listed as follows:

- (a) If the majority of the shareholders in a company are prepared to sell out they can expect a good price for the whole business as a going concern.
- (b) The sale enables liquidation of personal capitals tied up in the concern without the need to break up the company. Often this can be achieved, particularly on a sale to an industrial holding company, with the maintenance of a working interest in the company for the vendor and his family together with a continuing but minority interest in the equity.
- (c) Should the sale of the shares in the private company be in exchange for quoted shares in a public company, this gives the vendor greater marketability of resources.
- (d) Small private companies with limited recourse to financial assistance are generally not fully able to provide fresh capital for expansion when this is required. Unless a sale takes place to an acquirer with funds to support such expansion, growth is inhibited.
- (e) The sale of a small organisation to a broader group can bring greater security and strength to the operations of the acquired concern. This can affect beneficially the attitudes of suppliers and customers as well as those of bankers, insurers and other professional advisers.
- (f) The company in its new association will derive benefit from improved trade terms, wider goodwill, better chances of

exchange of business and "know-how" and the facility of broadly-based group schemes.

The main fiscal advantages of a sale by a vendor of a private company are:

- (i) General
  - (a) The consideration received for the shares sold will be a capital receipt not subject to tax except in the uncommon case where the vendor is carrying on a business of dealing in shares.
  - (b) An accumulation of a company's tax losses can be realised by the sale of the company, provided that the acquirer has the assurance that profits may be injected into the company in the future to enable effective use of the losses in the relief of taxation.

#### (ii) Estate duty and surtax

- (a) Relinquishment of control in the family type of private company (where such company is perhaps the major family asset), with realisation in a tax-free manner, will also be of advantage in providing available funds for sudden and heavy calls on the family's resources, such as estate duty on a family death, without the need for liquidation or a forced sale. Erosion of the family company can take its most severe form in the estate duty. The sale of an interest giving a publicly owned company control of 25 per cent or more of the equity will broadly avoid the possibility of the more penal forms of levy of estate duty.
- (b) A sale of like dimensions will also mean that surtax will no longer be leviable on the company. Such a sale may in fact be made in anticipation of a surtax direction on retained profits.

#### IV. Prerequisites to acquisition

##### *The business to be acquired*

Prerequisite conditions to be satisfied in detail in relation to the business to be acquired can be summarised as follows:

- (a) The acquisition should possess a good management team, unless the acquiring organisation has available management capacity. The team should be comprehensive, fully experienced and qualified, and have made arrangements for succession. It should also be prepared to work with and for the new group, and be attuned to the benefits of group association. In some situations these desirable features are to a greater or lesser extent not present, and this must involve either the use of existing group management and/or the creation of a new management team with all its attendant delays and problems. If the acquisition is to be made overseas this demands either an existing supervisory set-up for the territory concerned, directly or through branches or subsidiaries, or sufficient and adequate personnel to visit, to maintain liaison, to take executive action and to report. The spreading of interests within the United Kingdom

carries similar problems, but on a smaller geographical scale.

(b) The company should either be earning or be capable of earning profits, unless the business is being acquired for its tax losses alone or for the conversion to better account of its major assets.

(c) The acquisition should be of the right size in terms of both the cost of the acquisition and its earnings. If the company fits into the existing trade of the acquirer, the size of the profits and of the organisation may not necessarily be of paramount importance. In most cases the maximum size of an acquisition will be dictated by the ability of the acquirer to control, to finance and to develop the new concern without unduly detracting from the operation of the existing group. A minimum size is also of importance, for it is often easier to manage the larger concern. Many smaller firms are unlikely to be endowed with men or equipment adequate to cope with the demands of a growing business. The small business will also, and in all justification, lean most heavily upon the parent and be unlikely to provide an immediate return to pay for this support. However, in a large group very small companies can often fit in well as subsidiaries. Any limits set should be flexible and be varied as the group grows and as trade conditions dictate. Standards of size should be of:

- (i) estimated maintainable future profits per annum (normally before tax, but after all other charges) and
- (ii) the probable total eventual cost of investment. Such cost of investment should include not only the purchase price of the capital initially acquired, but also loan capital to be provided and development capital to be sunk over the next few years.

(d) The nature of the acquiring group and the permissible extent of diversification agreed upon may be other guiding factors, which will perhaps limit acquisitions to particular trades or types of business. If the group is to be diversified in order to even out the effect of variations in fortune of different trades, then size may be ruled by the need to prevent material unbalance between those trades.

(e) Both world and national economic circumstances must be generally favourable to the acquisition. Trade conditions and prospects in relation to the particular acquisition should appear progressive, and the character of the business to be acquired should be expansionist and forward-looking.

(f) The physical condition and extent of the assets employed should be appropriate and adequate. Overcrowded factories, poorly sited premises, badly maintained buildings and machinery, lack of room for expansion, or a substantial excess of a profit-earning valuation of capital over net asset values may all, *prima facie*, weigh against an acquisition. Large goodwill figures are not in themselves a deterrent, but they do imply greater capital risk and



the need for ensuring continuity of management and "know-how." Market valuations of fixed assets and other items are not always essential, but if available or deemed desirable should be used to assist in assessing the attractiveness of an acquisition.

(g) The financial position, results, needs and capacity of the acquisition should be ascertained; the liquidity and capital structure of the concern should be established; and the accuracy of the records produced should be verified.

(h) The feasibility of a deal should be tested. Many potential transactions fail at an early stage of negotiation on discovering, for example, that the ideas on price are so far apart as to be unbridgeable.

#### *Growth potential*

Many of the points made in the preceding paragraph pose the question whether and how it is possible to recognise growth potential. Conditions in businesses which, *inter alia*, are likely to indicate growth possibilities are:

(a) Unused capacity in buildings and equipment. This may permit a rise in production and sales without a corresponding rise in capital invested. It may be reflected in a relatively low return on capital employed.

(b) A prospect of expanding output at a falling capital cost. This may arise from economies in production, in management, or in marketing, from operating on a larger scale.

(c) Technological advance and other means to improve efficiency. This can bring a higher rate of growth in output, sales and profit than the rate of capital investment involved. The technical progressiveness of a firm points to the possibility of further innovation toward the raising of the rate of return upon capital employed. Readiness to innovate is in itself an indication that the management is alive. An active and lively management will secure economies both by innovating and in other ways. (Infant industries and the firms in them can and do encounter a wide variety of technological teething troubles, although these must become less important in time. It may be that competitors who move into such an industry after the pioneers have had only a modest reward for their heavy expense on research and development are in the better situation. However, initiators may score by the establishment of goodwill and by being first in the field, but these could be illusory advantages from the overall economic point of view.)

(d) The power of a firm to attract good managers and executives often demonstrates that the firm is growing. Stationary or declining industries or firms will not get the best men.

#### *The acquirer's needs*

There are a number of prerequisite con-

ditions for an acquisition that particularly concern the acquirer:

(a) The necessary purchase consideration must be to hand. This is often in cash, in shares, in debentures or more rarely in kind.

(i) Cash may be from current resources, from borrowings, or from an issue and subscription of new share capital. Section 54 of the Companies Act, 1948, prohibits (with certain prescribed exceptions) the direct or indirect giving of financial assistance for the acquisition of a company's shares or those of its holding company. This precludes the borrowing by the acquirer of any surplus moneys owned by the acquired company in order to pay for the acquisition. In my own group, where the holding company literally is acting as banker for the surplus finances of the group, such borrowing is made frequently. However, we have been advised that if payment for the purchase is made out of a generality of funds (which may include the acquired company's surplus either immediately or as a reimbursement later) this does not contravene Section 54. Apparently there is not a breach of this Section unless the facts show a clear and direct application of the surplus moneys. However, each case has to be looked at carefully, with legal advice where any possible doubt exists.

(ii) The issue of shares, of whatever class is considered appropriate, assumes that there must be adequate authorised capital. If the shares are to be quoted and dealt in, successful application to the Stock Exchange must be obtained. Arrangements for the sale of shares or other scrip after their issue as consideration, perhaps over a protracted period, is often a condition precedent to a deal. Otherwise—particularly where a large issue is involved—a sudden and heavy off-loading on to the market could have a depressing effect on the market price of the issuing company's shares, including those newly issued.

(b) Should a company which is to effect an acquisition seek the prior approval of its members? Two points may be considered here, both of which are referred to under Head No. 5 in the Council's memorandum (dated June 1, 1960) to the Jenkins Committee. One involves responsibilities arising on fundamental changes in a company's activities, and the other is concerned with the duty of the issuing of shares. Perhaps here I may quote the memorandum:

#### **"Fundamental changes in company's activities"**

##### **SUBMISSION**

*The main fields of activity in which a company and its subsidiaries operate should be stated each year in the report by the directors to the shareholders or in a statement accompanying that report. The report should also state any changes in the main*

*fields of activity since the last report. The Board of Trade should have power to exempt from this requirement if the directors satisfy the Board that it would be harmful to the company to give the information."*

#### **"Issue of Shares"**

##### **SUBMISSION**

*The specific approval by the company in general meeting should be required for an issue, to anyone other than the present shareholders, of equity share capital carrying voting rights or of non-equity capital with voting rights (other than rights arising only in special circumstances) or of share or loan capital which is convertible into equity capital or confers the right to subscribe for equity capital, if in any of these circumstances the issue is of a significant amount, say more than 25 per cent of the issued equity capital prior to the new issue."*

Normally, of course, acquisitions are the responsibility of the board of directors within their powers under the memorandum and articles. It is clear from these submissions that a closer check on these powers is deemed advisable. Certainly there have been a number of curious instances over recent years where companies have changed direction (albeit within their widely drawn objects clause) without a second thought for the members, and where large blocks of stock have been allotted to give virtual control to some other group.

#### **V. The privately negotiated acquisition**

In the privately negotiated acquisition the initial coming together of the buyer and seller of a business is usually effected in the following ways:

(a) by personal contact where members of the acquiring organisation are known either directly or indirectly to the sellers; (b) through solicitors, accountants, business brokers, bankers and stockbrokers, whose clients have expressed a wish to sell or buy an interest in a business; and (c) by a direct approach, either by the acquiring organisation to the board of the company to be acquired or to its owners (if they be different), or to the acquiring organisation by the vendors, usually where it is known to them by reputation.

#### *Investigation for the acquisition of a business*

If after initial enquiry it is evident that there is nothing that materially runs counter to the prerequisite conditions to acquisition, the acquirer can embark upon a more detailed investigation. Such investigation for purchase may be effected by the acquirer's own staff and/or through outside professional advisers. The latter may include accountants, solicitors, engineers, surveyors, and



others, depending on the size and nature of the investigation and on the policy decisions of the acquiring organisation. The carrying out of the investigation by the staff of the acquiring organisation has in my own experience brought many advantages, including the opportunity for early and continuous association with the new subsidiary, for the gaining of a deeper knowledge of the new organisation, and for the establishment of goodwill and a friendly understanding between the persons who will perhaps be working together in the future.

No two investigations for purchase ever run the same course, but they do take a general pattern. Any *pro forma* programme of operations which may be drawn up must be flexible in its content and layout. Such an investigation programme can be drawn up to deal with the various stages involved in an acquisition, and should allow for and include a *pro forma* report or reports at these various stages. In the case of my own company there are usually three stages in a typical investigation for acquisition.

*Stage I.* This will cover consideration of the original enquiry, its source and the information in it and preliminary information on the industry and the business. It will also cover the latest reported results and current financial position and the broad reasons for the sale and purchase, and will postulate anticipated results and developments and the nature of the deal. Independent information will also be obtained from various sources of reference, and these may include directories, press reports, company information services such as Moodies (or the Exchange Telegraph), the Bush House file and trade status enquiry reports. Such information will identify the persons and businesses involved and will be concerned to establish *bona fides*. This stage ends with a preliminary meeting and a brief report based on the preliminary information obtained, which should make a recommendation, or otherwise, for advance to Stage II.

*Stage II* will embrace the more detailed investigation on the industry and the firm, either by professional advisers or by the acquirer's staff. Inspection of the works, offices, warehouses, shops and showrooms will also be completed where possible and appropriate. Meetings will be held to agree the pattern and security of the negotiation and to elaborate on the form of the purchase and of the organisation under which the acquisition will operate in its new group. Written reports will also be required from the

owners or management of the acquisition, which will cover many aspects of the business operation. Among other information, the following should normally be obtained:

- (a) Full sets of the last ten years' detailed audited manufacturing, trading, and profit and loss accounts and balance sheets for each company under review, and consolidated accounts where applicable. Also cost accounts and any supporting documents to the published accounts, such as directors' reports and chairman's reviews.
- (b) Tax and wear and tear computations for the last five years.
- (c) Total for each company of current orders compared with those of the preceding year.
- (d) Analyses of sales for the last five years for each company:
  - (i) in the main product categories (in sterling and quantity);
  - (ii) showing the amount taken by the six major customers (in sterling);
  - (iii) showing the amount of exports (in sterling).
- (e) Details (including particulars where appropriate of date of purchase, the original cost, rate and method of depreciation, the total depreciation provision, net book value and the estimated current value) for each company of all significant classes of fixed assets and of all individual items of major significance.
- (f) Details (including valuation bases) of all significant classes of current assets and liabilities.
- (g) Details of long-term or deferred liabilities.
- (h) Details of the management and its structure.
- (i) Lists of present shareholdings.
- (j) Copies of the memorandum and articles of association and all important agreements.
- (k) Details of leases, and development and planning rights on land.

Information having been obtained from the documents provided, further meetings will provide the opportunity for receiving explanations and additional information. One of the main matters established at this juncture is the basis and *quantum* of future maintainable profits. Finally, an intermediate report is submitted setting down relevant information obtained to date and putting forward a recommendation.

*Stage III* will bring the principals in the deal together. Negotiation will then take place. A final report is thereafter provided for top board consideration. The terminal decisions involving formal completion of the deal, publicity and post-acquisition procedures will then be resolved.

Suggested contents for a report to be provided at the completion of Stages II and III is included as Appendix A. While

all the sections will be included in the Stage III final report, it will be drawn up in lesser detail and will be prefaced by a one-page summary.

#### *Judging the state and capacity of a company*

The investigation is essentially a process of collecting facts and drawing conclusions. The means and manner of this fact gathering having been considered and the contents of a simple report having been set down (see Appendix A), I feel it important to comment on the major factors to be drawn out of the mass of data to enable judgments to be made.

In my view the major factor affecting any company is the quality of its management. How is this to be assessed? I would list the following indicators, and I am sure there are many others:

- (a) What are the achievements of the present men?
- (b) How long have the management been in the saddle, and to what extent are they the creators of the business?
- (c) Is the management structure appropriate for the nature, size and state of development of the concern?
- (d) Are the management forward looking in all their policies and activities?

The answers to these questions will be many and manifold when applied to all the facets of any business. The pattern emerging will point to management success or failure.

Morale of a concern is an elusive quality. It usually does not exist without good leadership. It may depend heavily upon history and tradition, and a proper pride in past achievement. It can be recognised in application and enthusiasm, in a good work tempo, and in cheerful and willing co-operation. It brings inciteness and inspiration, and in times of adversity it brings resilience for recovery. Above all it brings success and the end product of financial reward for all concerned.

The physical state of a company's assets has to be judged by inspection. This is the job of the engineer, the surveyor, and other specialist professional advisers. Examination of the book records and verification of the assets while appropriate for audit is insufficient for acquisition purposes, unless perhaps the business is essentially "personal" (say, a fashion designer) or one of service (say, a management consultancy). In such instances, particularly where assets are few, judgment is on performance from past record and by an examination and appraisal of present action. It is to be emphasised that judgment of physical state is not the same as the equally

essential task of ascertaining the capacity and efficiency of the assets employed in operating the business.

Reputation and status can be cross-checked with third parties. True goodwill, although an "intangible" asset, is none the less a real one. Goodwill is an asset which the best businesses nurture. Evidence of past efforts for the building of "goodwill" should be looked for carefully. First-class service, research into customers' needs and attention to both public and internal relations are all of the utmost importance in pin-pointing the live and vital concern.

The pattern of financial success and the way it has been met and coped with are both items of great significance. The source and use of funds statement, the record and trend of the return on capital, and the personal handling of private financial affairs will all give valuable clues to the character of the business, to its growth potential, and to its owners, who perhaps may be continuing as the managers.

The organisation of materials and labour, and the handling of problems arising on them; the expansion into or the withdrawal from markets; and the reaction to competition and major periods of difficulty will all have their stories to tell.

Statements setting out the assets and liabilities and the funds of a business are particularly within the accountant's field for interpretation. Perhaps I have no need to stress the factors of financial accuracy, solvency and adequate liquidity. Unbalance which is not within ready control spells difficulty ahead and perhaps danger. The needs of the business for stock and for cash should be reconciled with the figures revealed. Too much cash or too many "other" assets which are not being put to good use in the company may be an embarrassment in the deal, or alternatively a bull point for the purchase, should the acquirer be anxious to acquire such assets. No item in these statements should remain unchallenged and unjustified.

Share capital structure can raise some pretty knotty problems. Many of these knots may have to be untied or cut through before the acquisition can take place. Gearing of prior capital and loans to equity capital need consideration, and views must be taken on their relevance in a new situation.

It is the trend in whatever context which is of the greatest importance. Progressive development of management, of production and sales, and of financial strength are the signposts of judgment which point to the desirable acquisition.

#### *Negotiation and valuation*

After the acquiring concern has had an opportunity to consider any report produced at whatever stage of the investigation, discussions at successively senior levels will take place between representatives of the parties. As indicated, there may well be quite a number of reports. This series of reports will progress from a sketchy preliminary draft to a complete and formal document for board level decision. Likewise interview and discussion will progress from a preliminary exploratory chat to full-scale meetings with both sides assisted by professional advisers (usually accountants and solicitors). Discussions, apart from elucidating information, will deal with price, manner of consideration, timing and method of deal, and the conditions under which the acquisition will operate in the future. It is important to appreciate that the sale of a business (particularly by a controlling shareholder where he has created the concern or has been associated with it for a great many years) is a matter of human significance, and especially so to the vendor. Meetings therefore require careful and sensitive handling. If at any point it is evident that a deal is plainly out of the question, this should be made clear at the earliest opportunity. It is also important that propositions should be dealt with expeditiously and that there should be an early understanding of the timing and method of negotiation likely to be involved.

Before considering the question of valuation of businesses, I would emphasise that, given adequate and appropriate advice and knowledge on both sides, the eventual price agreed upon is essentially a matter of negotiation. Such negotiation will not always give the same answer, even with the same facts and the same people. The pressures to buy or sell and the course of the negotiations themselves exert enormous influence. Personal feelings, reactions and prejudice play their part too. Reputable principals and advisers will ensure that full disclosure of all relevant facts is made and that (all other things allowing) a "fair" price is arrived at. In such ways are business reputations established, a far more valuable factor than temporary financial advantage.

Some business vendors come to a negotiation with preconceived (but uninstructed) ideas of the value of their firms. It is in the course of investigation that a proper idea of the value is built up which will provide the range of negotiation.

Since the purchase of a business as a

going concern is in the great majority of instances an investment upon which an adequate return will be expected in the future, any valuation in these cases must take account of the probabilities of such return. Such a valuation—the "earnings" value—is arrived at by multiplying maintainable profits by an appropriate "earnings" yield factor. For example, a business earning £100,000 profit before tax, on a 25 per cent "earnings" yield, is valued at £400,000. Where current replacement values of assets in use exceed "earnings" value for whatever reason, then such "assets" basis may be more appropriate. Tillings in practically every case buy a going concern on an earnings basis. On occasions price paid calculated on this basis has shown a discount on the "assets" valuation.

The appropriate "earnings" yield percentage will vary with the following factors:

- (a) Current interest rates.
- (b) Existence of a stock exchange quotation or dealing, that is, degree of marketability.
- (c) Size of concern in overall value—usually the larger the business the lower the yield.
- (d) Proportion of goodwill likely to be included in the price—normally the greater the proportion of goodwill the higher the yield.
- (e) Element of speculation in the business and the degree of risk to the acquirer. Consider, for example, the high risk of a business which is literally a "one man band." By and large, the greater the risk the higher will the yield percentage need to be.

In arriving at and agreeing the earnings yield and consequently the value of the business, much will depend upon the strength of the powers of bargaining and argument of the parties to the deal.

Over the last ten years or so an investment in a well-known public company on average would have shown an initial dividend yield of about 5 per cent per annum. During this period the average profits cover expected for dividends of this size was about three times. My own company's private company investment experience over the period shows that the figures mentioned should be about doubled. As you will see, this gives an average "earnings" yield for private companies of about 30 per cent. Currently both dividend yields and cover for public companies tend to be lower, but again in my own experience private company investment still tends to be about the 30 per cent figure. These are averages, however, and as such are unreliable for the individual case.

The factors affecting the level of



"earnings" yields are in many aspects common to those relevant to the concept of return on capital. The Institute in its publication *Business Efficiency* stated that in arriving at the "return" on capital appropriate for a business, account must be taken for:

- (a) The need to provide funds for fixed asset replacement where depreciation has been on an historic basis and has provided inadequate funds for replacement.
- (b) The need to provide funds (other than from new capital) to weather recessions and setbacks likely to be encountered in the trade and to finance reasonable growth and expansion.
- (c) The need to provide funds to pay adequate dividends and to show appropriate earnings cover thereon.

Return on capital has usually to be a great deal higher than is generally supposed, to allow for these factors and for taxation as well.

There is probably no right "rate" (whether "earnings" yield or return on capital) for any particular company, but there may well be a right "return" level in relation to an industry and the service that that industry is giving to the community. The industry supplying a service which is needed will get the return it deserves. Within a given business activity some firms are effective and others are not so. It should be noted that high margins and rates of return as a matter of policy are not necessarily desirable, as this may invite interlopers and unwanted competition. A lower return may give greater strength and security and for a longer period of time. Such a company in turn could command a greater valuation.

The difference between capital employed in a business—for this purpose defined as the net assets—and the purchase valuation will represent either goodwill or negative goodwill. Where current values of assets are not dealt with by revaluation on the face of a balance sheet, goodwill will contain unrecorded variations from balance sheet values.

Substantial goodwill in a valuation—to the extent that it does not represent unrecorded asset appreciation—may well accompany a special situation such as the existence of a highly personal business depending upon the efforts and existence of perhaps one particular individual in the business. A high proportion of goodwill in a price may also exist where profits are high owing to special trading features such as a virtual monopoly or a valuable trade name. The risk of termination of these favourable situations will obviously need to be taken into account in fixing the appropriate "earnings" yield.

#### *The form of a deal*

At first glance the form of a deal might appear to have few points of substance for consideration, but in fact there are a multitude of problems. There are also a great variety of possible solutions.

It must be ensured that the company to be acquired is in a form, or will in due course be in a form, suitable for an association. In order to reach such a form the following may have to take place:

- (1) A reduction of capital.
- (2) An issue of new capital:
  - (a) to capitalise loans;
  - (b) to provide funds to pay off loans;
  - (c) to acquire associated companies of the vendor to form a single group for acquisition;
  - (d) to capitalise profits.
- (The renunciation of newly issued "bonus" shares to the acquirers has the advantage of not involving the stamp duty which would otherwise be payable on a transfer of existing shares.)
- (3) The formation of a new company to take over the business to be acquired with the exclusion of any assets not to be part of the deal. The old company may or may not then be liquidated. Alternatively such a reconstruction may be effected after a purchase of the whole of a business.
- (4) The payment of dividends—revenue or capital—to provide for surtax clearance or to divest the business of unwanted assets. The dividends could be *in specie* or in cash.
- (5) A reorganisation of the capital structure in rights and/or values.
- (6) A revision of the memorandum and articles.
- (7) A conversion to a public company or to a private company.
- (8) The obtaining of a Stock Exchange quotation.

The proportion of the capital to be sold needs to be agreed, as also from whom this capital is to be acquired. If it is intended that the acquisition is to be a subsidiary, then the requirements of the Companies Act, 1948, in this respect must be satisfied. If control for the passing of special resolutions is to be assured, then a 75 per cent minimum holding in the voting strength is necessary. Broadly, a 75 per cent holding in the equity will also enable grouping for profits tax and for effective subvention payments for taxation purposes.

Certain questions affecting key executives may now be considered. It may well be desirable to arrange for the introduction, amendment or elimination of service agreements. Service agreements are often looked upon by executives of an acquired company as a form of security. If good relations are not capable of being maintained, the only assurance they bring is perhaps of compensation on

dismissal. While they have contractual force, they also (and perhaps more significantly) effect a moral tie which from the acquirer's point of view may well be of great advantage for a highly "personal" business. However, the maintenance by the manager/vendor of a stake in the business is often of greater force and incentive. Compensation for outgoing directors needs consideration, since, if this is to be paid as part of the deal, information must be provided in any written offers made and approval of the members of the acquired company must be obtained. Levels and methods of remuneration for key executives need also to be decided, as will the constitution of the new board.

What of the consideration? This can be satisfied in a number of ways:

- (1) cash
- (2) shares in the acquiring concern: (a) ordinary, (b) preference
- (3) loan stock or debentures in the acquiring concern
- (4) other assets in kind such as (a) securities in other concerns, (b) other property
- (5) a combination of any of the above.

If shares in the acquiring concern are to be issued, questions then arise as to the following conditions of issue:

- (1) The price of issue.
- (2) The ratio of exchange to the acquired shares if no price is to be mentioned. (A problem arising here is the assessment and recording of any premium on issue, for example, where there is a one for one issue of £1 shares. Some accountants establish the value of the exchanged shares, while others base entries on nominal values. The Council of the Institute in a submission to the Jenkins Committee in February, 1961, have proposed that Section 56 of the Companies Act, 1948, should be amended to ensure that a proper value is placed upon all shares issued by a company, whether for cash or other than cash. Any excess of such value over the nominal amount of the new capital would be treated as the premium. The difficulty is of course ascertaining "proper value", which the Council suggest must be determined by reference to all relevant information.)
- (3) The rights to dividends yet to be declared.

Where various classes of capital with varying rights exist in the acquisition and more than one category is to be the subject of purchase, then the valuation of the different classes concerned will need to be arrived at equitably.

The date as from which the acquisition is to be acquired needs to be fixed. Normally this should be the day when the property in the capital of the acquisition passes to the new owners. A practice is arising whereby acquisitions are back-



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dated over very long periods, often amounting to years. Occasionally acquisitions are also forward-dated. These practices can cause considerable complication in the establishment of pre-acquisition reserves for consolidation purposes.

#### VI. Takeover bids

A takeover bid is a special form of acquisition offer, and much of what has gone before is equally applicable to such bids. Such a bid is usually directed at a company where there is no restriction on the transfer of its fully paid shares, which by and large means a public company with a Stock Exchange quotation and rights of dealing.

The description "takeover bid" may be defined as "a general offer to acquire shares or other securities of a particular class or classes made with the intention of obtaining a controlling interest in the equity capital of the company and involving both a time limit for acceptance of the offer and a minimum volume of acceptances."

#### *The special causes of takeover bids*

The Stock Exchange price of a share, while making due allowance for a number of other factors, is primarily based on current and estimated future dividends, the cover over dividend which earnings provide and the company's profit record. Any potential surplus which would arise on a revaluation is not normally reflected in share prices, unless either there is a takeover in the offing where the bid is likely to be based on current asset values or the company is likely to be liquidated. Certainly since 1945, while on the one hand inflation has pushed up the value of most companies' assets, on the other, government exhortation, considerations of surtax and, prior to April, 1958, the high rate of distributed profits tax, have tended to keep dividends down. Unduly low share prices owing to the payment of conservative dividends, and the gross understatement of assets in terms of current values, have made many companies into sitting targets for would-be bidders, particularly where such bidders have considered they could employ the company's assets to better advantage than could the existing directors. It has also been said that the Eighth Schedule to the Companies Act, 1948, has helped to produce many takeover bids by requiring companies to furnish accounts in far greater detail than was the case under earlier legislation. The widespread holding of many public company shares has

also assisted the task of the takeover bidder, for a scattered body of shareholders (unless organised by a rapidly-marshalled shareholders' committee or by fervent Press comment) is not at all well situated for a better price or inclined to resist the temptation of an offer. Shareholders may often be thankful to accept what is in their eyes a favourable price, since it exceeds the current market value and possibly also exceeds expectations of improvement to the stock-market value of their shares under their present directors.

#### *Takeover bid operations*

Many takeover bid acquisitions take place smoothly and with little public comment. In many of these cases, before the offer is announced the boards of the companies concerned have completed their discussions and with the help of professional advisers have drawn up and agreed mutually satisfactory terms for the offer to be made. Thus all the necessary details of the deal are received simultaneously by the shareholders of each company concerned, together with recommendations from their boards, and the shareholders are in a proper position to see what is in their best interests and to give their acceptance if that is their decision. Instances do occur, however, in which the board of a company making an offer has not sought the agreement of the board of the company which it wishes to acquire, or having sought it has failed to obtain it. Situations also arise in which competing offers for the same company are made simultaneously by two or more offerors. Although the offeror in a takeover bid is seeking to make a bargain with the shareholders of a company, their board of directors is normally the best channel of approach and should also be the best source of advice for those shareholders. Many consider it imperative that the board of such a company should inform its shareholders of any offer received as soon as is reasonably possible. Whether or not it recommends the acceptance of an offer, the board should make every effort to supply its shareholders in good time with such information as will enable them to make up their minds on the offer.

When talks are proceeding which may lead to an offer being made it is important to do everything possible to maintain secrecy. To prevent a speculative market arising in the shares concerned, a preliminary announcement may be necessary prior to disclosing the full details of the offer. However, it is normally unwise to make any announce-

ment until it seems certain that an offer will in fact be forthcoming.

Objections to takeover bids arise because bidders sometimes go wrong in carrying out the operation. Mr. Harold Wincott has suggested that "takeovers have come into disrepute in many people's minds simply because those involved have gone to almost any lengths to obstruct them or advance them." An obvious and relevant point is the need to ensure that a bidder is able to pay what he has promised. Voluntarily, many bids involving cash are today being supported by a banker's guarantee as to the availability of the money to be required as consideration. It is also reprehensible that shareholders should not be given the fullest information when they are asked to part with their property; that some shareholders should receive more favourable terms than others; and that a reasonable time is not allowed for acceptances.

Compensation for redundant employees, including directors, always needs careful consideration. In the case of payments to directors, shareholders should be given the fullest information as to any proposed compensation payments and also as to any re-employment in a different capacity.

#### *Resistance to takeover bids*

There have been many recent examples of resistance by a board to a takeover bid, both successful and otherwise. The task of a prospective bidder is usually made more difficult by raising the share price. This has been achieved in a number of ways, either singly or together:

- (a) A revaluation of the company's assets to bring them up into line with current values.
- (b) An issue of bonus shares so as to make the worth of a company more nearly reflected in its share capital.
- (c) A repayment of surplus capital.
- (d) Raising the dividend or paying a special bonus or capital dividend.
- (e) Indicating current and prospective profitable developments in the company's technical progress which under the existing management will within a short time come to fruition.

A takeover can be forestalled either by having a closely held majority interest in the equity or by maintaining a large part of the equity in non-voting shares, which enables a closely held minority interest to control the company. Such control is often held by the entrepreneur whose genius and effort has built and is building the business. It is claimed on behalf of the minority controlled company that non-voting participation safeguards the entrepreneur's contribution



and gives others a chance to share in the prosperity of the concern in exchange for their capital subscription, albeit non-voting. Many arguments exist today over the propriety of equity shares without votes. Broadly, since these non-voting shares are usually to be purchased at a discount to the controlling voting shares, public opinion tends to accept that the buyer must be aware, and perhaps on occasions must beware, of the nature of the article for which he is paying.

Is it proper for directors to resist takeover bids at all? It seems clear that the principal duty of a board is to consider the interests of the shareholders as a body. It is understandable for the emotions of directors to be aroused for personal reasons, but the position of a director is one of trust which must rule out any special consideration for the interests of individual directors as such. However, the question is now being asked on more and more occasions as to whether in a takeover the interests of the staff and the workpeople in the companies involved should not also be considered. This is a social problem and one on which no doubt we will hear a great deal in the coming years.

Many boards in the past have tended to adopt excessively slow and unenterprising schedules for the development of their business. The post-war advent of the takeover bidders with their shorter term and more vigorous outlook has impelled many boards to revise the rate and size of their programmes, and this has almost certainly been a move in the right direction for the obtaining of that adequate expansion in our economy needed to provide the higher standards of living that we all seek.

#### *The Council's submission*

Many of the recent pronouncements on the regulation of takeover bids, both generally and to the Jenkins Committee on Company Law, are aimed at the means and manner in which they are or should be made. Certainly most informed professional and commercial opinion recognises that the takeover is an acceptable and normal feature for an economy based on free enterprise. Nevertheless concern is felt for the persons whose shares are the subject of a takeover bid, that they may be properly informed. The Council of the Institute in its recent submission to the Jenkins Committee stated that it considers legislation the proper means of dealing with this matter, so that any company or other person would be free to make a takeover bid provided there is compliance with the provisions of the law.

The submission of the Council is basically aimed at the provision of adequate information and the regulation of procedure. In particular it has been submitted that: "It should not be permissible to make a general offer to shareholders to purchase their shares or part thereof unless the offer satisfies the conditions for a 'valid bid'." The "valid bid" is then defined. Such definition is in my view unexceptional, and is very much in line with other submissions. Many of the points made have already been incorporated in the "Takeover Rules", 1960, which are considered below.

#### *The "Takeover Rules", 1960*

Under the Licensed Dealers (Conduct of Business) Rules, 1960 (the "Takeover Rules"), which arise under the Prevention of Fraud (Investments) Act, 1958, a takeover bid may effectively only be made through a dealer authorised under that Act, usually a banker or stockbroker. By an exception specified in the Act, circulars containing offers by a parent company to minority shareholders in a subsidiary can be sent directly to shareholders by the acquirer and need not be transmitted through an authorised dealer.

The 1960 rules introduced the first official requirements in relation to takeover bids. Although the rules do not apply to private transactions or to bids to minority shareholders, current City opinion holds that any offer should nevertheless observe the standards contained in these rules. The offer, which must be in writing, has to give, *inter alia*:

- (a) Various information concerning the securities involved in the deal.
- (b) Statements that the offer shall remain open for acceptance for at least twenty-one days from the date of dispatch of conditions of minimum acceptances, and of the latest date on which the offer can be declared by the offeror to become unconditional.
- (c) An undertaking that if the offer relates to less than the total amount of any issue of the class of securities involved, then in appropriate circumstances there will be a rateable reduction in the acceptances where these exceed in total the total amount for which the offer is being made.
- (d) Details of the securities already held by or on behalf of the offerors, and particulars of any material change known to the offeror in the financial position of the company to be acquired, since the date of the last published balance sheet.

A recommendation for or against a takeover bid, by or on behalf of the board of directors of the company to be acquired, is not required under the 1960

rules. However, where such a recommendation is made the rules lay down what must be included.

As an addition to the requirements of the "Takeover Rules" on directors' recommendations, it has recently been suggested that shareholders who have received a bid should also be presented by their board with an up-to-date statement of earnings, an independent contemporary valuation of assets and, where the offer is in the form of a share exchange, an earnings and dividend forecast in respect of the shares to be received in exchange.

#### *The Stock Exchange regulations*

A takeover offer made by a public company is deemed for the purposes of the London Stock Exchange regulations to be a prospectus. The Stock Exchange requirements for a prospectus include the provision of, amongst other details:

- (a) A statement on the financial and trading prospects and the working capital arrangements of the acquiring company.
- (b) A report made by named qualified accountants with respect to the profits or losses, and the assets and liabilities, of the business to be acquired.
- (c) Particulars of the interests of any directors of the acquiring company in the business to be acquired.

#### *Section 209, Companies Act, 1948*

Section 209 of the Companies Act, 1948, effectively provides that, where an offer by one company to purchase shares in another has been approved by nine-tenths in value of the offerees, then shares of any of the remainder may be acquired compulsorily. Approval by offerees where the company making the offer already holds more than one-tenth of the shares involved must also be in respect of not less than three-fourths in number of such offerees, besides holding not less than nine-tenths in value of the shares involved.

Where an offer has been approved by the prescribed majority the Court will incline to the view that the offer is a fair one unless the dissenting shareholder can prove otherwise (*Re Hoare & Co.* ([1933] 150 L.T. 374)).

There has been a case recently affecting Section 209, *Re Bugle Press Ltd.* ([1960] 1 All E.R. 768). The Court of Appeal has affirmed ([1960] 3 All E.R. 791) the decision of the High Court, whereby the minority shareholder was supported in his resistance to the attempted operation against him of Section 209 for the compulsory acquisition of his shares. The facts were that two shareholders, S. and J., between them

held 90 per cent of the shares in the B. company, and T. the other 10 per cent. S. and J. promoted and took all the shares in a transferee company, which made an offer for the shares of the B. company. S. and J. were willing to accept the offer (naturally enough) but T. refused. In proceedings under Section 209, the High Court held that T. was justified in his refusal. In substance the majority shareholders were the same persons as the transferee company, and the Court refused to allow the minority shareholder to be expropriated by the majority.

In March, 1961, in a High Court case (*Ridge Nominees v. Commissioners of Inland Revenue* [1961] 2 All E.R. 354) affecting stamp duty, it was decided that a compulsory transfer under Section 209 was not a "conveyance or transfer on sale" within the Stamp Act, 1891, as there was no consensus between the vendor and purchaser. Such a transfer therefore only required a 10s. stamp and was not assessable *ad valorem*.\*

One of the witnesses before the Jenkins Committee has put forward a proposal whereby all takeover bids would be handled under Court supervision. He also added that, since Section 206 gave the owners of a 75 per cent holding of the capital involved the means of ensuring the acquisition by a third party of 100 per cent of that capital, this to him seemed a good reason for reducing the 90 per cent in Section 209 to 75 per cent.

[To be concluded]

## APPENDIX A

### SUGGESTED CONTENTS FOR A REPORT ON AN INVESTIGATION FOR THE ACQUISITION OF A BUSINESS

#### (1) Introduction

This will generally describe the parties involved, give a brief résumé of the intended deal and the negotiations so far.

#### (2) Share capital

Details should include information as to any classes of capital; amounts authorised and issued; capital, dividend and voting rights; analysis of present shareholdings, including details of holdings by would-be vendors and the effects of the gearing of the different classes of capital.

#### (3) Descriptions of businesses involved

\*This decision has now been reversed by the Court of Appeal. See page 760 of this issue.

(4) *Departments, divisions and subsidiaries*  
A family tree of the structure of the business should be prepared showing relationships and functions.

#### (5) Directors and management

This should list names, duties, ages, service and remuneration of directors and executives, the structure of the management and the pattern of control, together with management succession plans.

#### (6) Staff, labour and personal practice

Under this heading information will be given on the numbers and categories of employees, methods of remuneration, agreements with trade unions, training and recruitment policy and availability of labour. Current practice in pension, welfare and other personnel practices will also be dealt with.

#### (7) Products, trading status and reputation

In this section there should be details of products, spread of customers, trade factors and such matters as the repercussions of free trade in Europe, trade-marks and patents, and trading developments.

#### (8) Sales, marketing and competition

Sales should be analysed into main categories and figures given for a number of years. Trends and comparisons should be shown. Methods of selling and marketing should also be dealt with. Information on competitors and relative shares of the market will be included.

#### (9) Buying, production and research

The availability and supply of materials as well as any special arrangements on forward buying will be considered. Reference should also be made to production estimates and capacity, and work being effected on research and development.

#### (10) Economic/political factors

This covers such matters as economic conditions and prospects for the industry and the effect of restrictive practices and the possibility of nationalisation.

#### (11) Profit record

The record should extend over at least ten years or some other significant and protracted period and refer to gross margins in product groups, net margins, expense equalisation policy, depreciation, stock and debtor provisions, profit trends, record of profits before taxation, tax charges, tax equalisation policy, the dividend record and reserve appropriation, return on capital, sources and uses of funds, and special capital profits.

#### (12) Land and buildings

Stating for each major item—the description, condition and history, book and current values, depreciation, insurance cover and development rights.

#### (13) Plant, machinery and vehicles, fixtures and fittings

For each of the different categories, the policy and record of replacement, depre-

ciation and maintenance should be given, also current values and insurance cover.

#### (14) Stocks and work in progress

Description and comment on the main grades should be dealt with. Bases of valuation, control systems and turnover ratios should also be considered.

#### (15) Debtors and creditors

Special note should be made of credit terms, legal and contractual disputes, contingent liabilities, and turnover ratios and bad debtors.

#### (16) Investments

#### (17) Financial arrangements

This will deal with the provision of finance of all types including loans; accounting systems; insurance arrangements; and special fiscal points affecting the company, such as surtax, estate duty, purchase tax and stamp duty.

#### (18) A summarised statement of the net assets to be included in the deal

The items in this statement will be at book values. Future tax will normally be dealt with as a contingency and deducted from net assets but it should also be recognised as a temporary fund in use in the operation of the business. Loans to the company from proprietors, if they are not to be repaid, will usually be taken over by the acquirers and should be classified as capital. Current values, if known, should be set down as a note and commented upon in relation to book values where differences are significant. Profits or losses since the last audited balance sheet should be included as also should distributions and new funds introduced.

#### (19) Future plans

These will cover proposals in hand or in mind for business development, capital expenditure, finance and profits.

#### (20) Maintainable future profits

This is the level of profit before tax which may be earned from present capacity in the new circumstances. It will exclude, for example, factors which have previously affected profits (such as proprietors' salaries) but which will no longer apply, and will include such new executive charges as are to replace them. Savings and profit to be achieved from group association will not be included since this is the acquirer's contribution.

#### (21) Valuation of business

Valuations should be expressed on both "assets" and "earnings" bases and for a range of yields in the latter instance, and the results converted into share values.

#### (22) Comparative profits and yields of similar businesses

#### (23) Proposed terms of deal

#### (24) Recommendation



**Taxation**

## Deferment of Schedule A Tax Deductible from Rent

SCHEDULE A INCOME tax is commonly collected at source from the occupier, who is entitled to recoup himself by deduction from the rent he pays. The tax deducted must not however exceed tax at the standard rate in the £ on the rent during the period of accrual to which the tax related. Today the tax deductible frequently exceeds the next instalment of rent due, and the occupier may give notice on Form A/2 to the Collector that he wishes to pay the tax in two instalments: (a) on or before January 1 in the year of assessment, the whole tax less the excess referred to; and (b) on or before the following April 1, the excess (Section 173, Income Tax Act, 1952).

**Illustrations: 1961/62**

(A) Net annual value .. .. .	£75
Rent (quarterly on usual quarter days) ..	£90
	£ s. d.
Tax payable by tenant: £75 at 7s. 9d. ..	29 1 3
Deductible from landlord .. .. .	29 1 3
Next instalment of rent .. .. .	22 10 0
Excess .. .. .	£6 11 3

The tenant may elect to pay one instalment of £22 10s. on or before January 1, 1962, and another of £6 11s. 3d. on or before April 1, 1962. If he delays payment of the tax until the last possible moment, he will pay his full rent on December 25, 1961, and will be out of pocket £22 10s. from January 1, 1962, until March 25, 1962, when he is able to deduct this sum from the rent payable. Similarly, he will pay tax of £6 11s. 3d. on April 1, but be unable to recover this from his landlord until June 24. It is common practice therefore for tenants to pay the first instalment of tax in time to deduct it from the rent

due on December 25, and the second before the rent due on March 25.

(B) Net annual value .. .. .	£200
Rent .. .. .	£340
Tax payable by tenant £200 at 7s. 9d. =	£77 10s. 0d.
Next payment of rent £85, therefore no need to defer any tax.	

The landlord will have an excess rent charge:

	£
Rent .. .. .	340
Repairs allowance .. .. .	60
	280
Net annual value .. .. .	200
Excess rent .. .. .	£80

The landlord bears tax on £280: on £80 under Schedule D, Case VI, and on £200 by deduction.

(C) Net annual value .. .. .	£200
Rent .. .. .	£160
	£ s. d.
Tax payable by tenant £200 at 7s. 9d. =	77 10 0
Tax deductible by tenant £160 at 7s. 9d.	62 0 0
Next instalment of rent .. .. .	40 0 0
Tax which can be deferred .. .. .	£22 0 0

The tenant pays tax on January 1, 1962, of £55 10s. 0d. This is made up of:

	£ s. d.
Beneficial occupation (rent less net annual value) £40 at 7s. 9d. ..	15 10 0
Deductible from next rent .. .. .	40 0 0
	55 10 0

## Taxation Notes

**Section 28 of the Finance Act, 1960**

Experience of Section 32 of the Finance Act, 1951, which allows a company to apply for a clearance for a proposed transaction which might be attacked as avoiding profits tax, shows that the Inland Revenue is loth to give such a clearance. In one instance

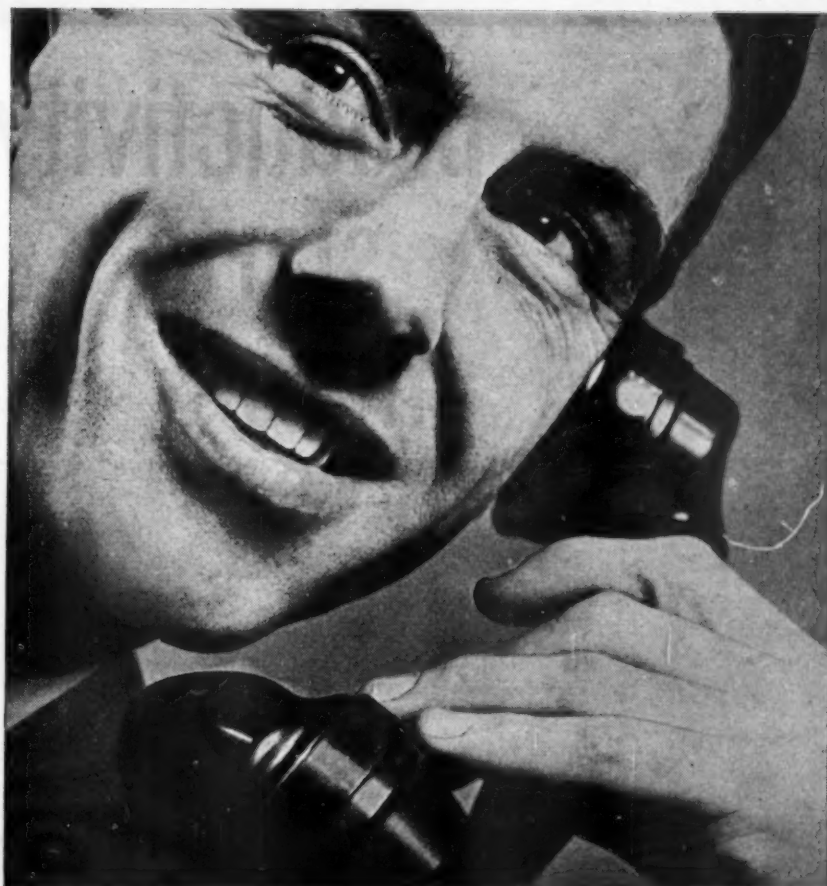
known to the writer, even a transaction that was imposed on the company as a prerequisite of putting shares on the market was not admitted by the Inland Revenue as entered into for *bona fide* commercial reasons.

Similar experience is arising under Section 28 of the Finance Act, 1960, which was passed to cancel tax advantages from certain transactions in securities. It seems to be the official view that a clearance will be given only if the Inland Revenue is satisfied that the Section *cannot* apply. If

it might apply, a clearance is refused and the taxpayer must rely on his advisers. Once the transaction has been carried out and the Inland Revenue has stated that it is suspect, the taxpayer has the right to put in a statutory declaration of the facts and circumstances which in his opinion keep the transaction out of the Section. If the Inland Revenue considers the facts warrant further action, it must submit the statutory declaration with a counter-statement to the tribunal appointed by the Lord Chancellor. The tribunal



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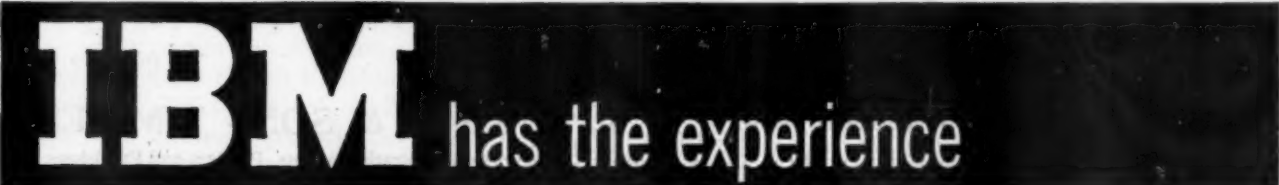


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It has been suggested that there should be a right of appeal against refusal to issue a clearance, but no such innovation is to be expected. The function of appeal tribunals is to decide on facts, not on transactions that have not been carried out. It is hoped, however, that *bona fide* commercial transactions, where tax saving is only incidental and not a purpose, will be given clearances.

#### War Widows' Pensions

The Chancellor of the Exchequer was asked in the House of Commons whether he was aware that British war widows living in Canada are liable, unlike Canadian war widows in identical circumstances, to pay tax on grants received from the United Kingdom Government and also on any grants received from the Canadian Government, and if he would introduce legislation to assist these widows in these respects. The Chancellor replied that a war widow's pension from British funds was subject to United Kingdom tax, wherever she lived. United Kingdom tax would not be chargeable on the grant from Canadian funds, but the grant would affect the personal reliefs allowable on liable income from British sources. He was considering this aspect.

The Chancellor had in mind, of course, Section 227 of the Income Tax Act, 1952, whereby a British subject (and certain other persons) not resident in the United Kingdom is entitled to claim personal reliefs against the income liable in the United Kingdom, but such relief is not to reduce the amount of the income tax (excluding surtax) below the amount which bears the same

proportion to the tax that would have been payable had his world income been chargeable to tax as the amount of the United Kingdom income bears to the world income.

#### Illustration:

	£	£
Income liable in United Kingdom:		
Earned .. ..	400	
Unearned .. ..	200	
		600
Income not so liable:		
Earned .. ..	200	
Unearned .. ..	100	
		300
		900

Liability if allowances were given in full against United Kingdom income:

	£	£
Income .. ..		600
Earned income allowance ..	89	
Personal allowance ..	140	
		229

	£	£
£360 at reduced rates ..	84 0 0	
11 at 7s. 9d. .. ..	4 5 3	
		88 5 3

	£	£
Liability on world income:		
Income .. ..		900
Earned income allowance ..	134	
Personal allowance ..	140	
		274
		626

	£	s.	d.
£360 at reduced rates ..	84	0	0
266 at 7s. 9d. .. ..	103	1	6
	187	1	6

Therefore, minimum liability on United Kingdom income:

$$\frac{600}{900} \times £187 \text{ 1s. 6d.} = £124 \text{ 14s. 4d.}$$

It is only where there is a considerable earned income overseas that the fractional method would not apply.

#### Assessments on Deceased Persons' Estates

There seems to be some misunderstanding of the effect of the Finance Act, 1960, on the assessments on deceased persons' estates in respect

of years prior to death. Before that Act, Sections 47 and 501 of the Income Tax Act, 1952, limited any assessment made after death to the six years preceding the date of assessment. Moreover, the assessment had to be made not later than the end of the third year of assessment after that in which the deceased died.

By Section 53 of the Finance Act, 1960, for the purpose of making good to the Crown any loss of tax attributable to the fraud, wilful default or neglect of a person who has died, an assessment on his personal representatives can be made for any year of assessment ending not earlier than six years before his death; it must be made within three years as before. It seems that any assessment made for any other purpose must still be for not more than six years before the assessment is made.

Some people have thought that this means that assessments made before the death in time for earlier years are thereby discharged. That is not so. The provisions mentioned deal only with new assessments—the old ones stand until settled. Moreover, Section 56 (5) of the Finance Act, 1960, keeps alive any proceedings for fines or penalties already incurred.

#### CHANGES OF ADDRESS

Members of The Institute of Chartered Accountants in England and Wales should note that a change of address reported to Moorgate Place for the Institute's records is not passed on to ACCOUNTANCY except on specific request, since that address does not necessarily correspond with the address to which copies of the journal are to be sent. Any subscriber wishing to have ACCOUNTANCY sent to his new address should state this when notifying the Institute of the change, or else write to ACCOUNTANCY direct.

### Surtax Directions

It was strange to find the Chancellor of the Exchequer last month stating, at a time when he was calling for dividend restraint, that he could not be expected to encourage people to avoid surtax directions by putting profits to reserve beyond the needs of a company. In view of his request that public companies should not increase their dividends even though there is an increase in profits, it would seem logical that the same policy should apply equally to companies liable to surtax directions under Section 245. The Special Commissioners appear to base their requirements as to what is a reasonable dividend on the basis which may frequently be adopted by public companies. It would be interesting to hear from readers whether, in any case they have had to argue before the Special Commissioners, the Chancellor's decision has been applied.

### Superannuation and Pension Funds

**Group Funds.** The Inland Revenue has stated in a letter to the Association of Superannuation and Pension Funds (to whom we are indebted for the information in this note) that the practice with regard to the approval under Section 379 of the Income Tax Act, 1952, of group funds has been reconsidered. For the future, the main requirements will be as follows.

(a) No objection will normally be raised to the inclusion in one fund of two employers where at least fifty per cent of the shares of one company is held by the other.

(b) Where—

(i) there is a substantial degree of common control; or

(ii) there are common shareholdings and other factors which indicate a close business connection,

cases will be considered on their merits. Full details should be submitted before inaugurating a group fund.

(c) If a fund is established by a national or local trade or professional association of standing which represents a substantial proportion of the employers engaged in the particular trade or profession within the particular area it need not confine the participating employers to members of the association unless the association so wishes.

(d) Where there is no close business connection between the employers in cases within (c) above, the benefits provided by each participating employer should be linked to the years of service with that employer. In all other cases of group service the benefits may be linked to total years of service with the participating employers. (e) The eligibility rule should be the same for employees of each participating employer.

(f) Provision should be made for the return to the employer of any surplus on winding up.

(g) In partial winding up, the rules may provide for the scale benefits in respect of service to date to be secured to the employees, etc., of the withdrawing employer, leaving any surplus to remain in the fund and relieving the withdrawing employer from any liability in respect of a deficiency.

**Mixed Benefits.** The Inland Revenue no longer objects to a rule providing that when an employee leaves his right to surrender deferred pension in favour of a refund of contributions is so restricted that the residual paid-up pension will be the greater of the equivalent pension benefits on the scale adopted in the rules or £6 per annum.

**Retirement Benefits for Short Service.** A memorandum issued by the Inland Revenue sets out a table and formulae which may be used as a guide to the amount of the benefits that may normally be provided, under a retirement benefit scheme approved under Section 388 or under Section 379, when the service with the employer concerned is less than forty years.

**Death-in-Service Benefits.** The Inland Revenue has modified the form of undertaking required in respect of death-in-service benefits. This requires the employer to undertake to inform the Revenue of any proposals during the currency of the scheme as a result of which the value of all death-in-service benefits, in whatever form, provided at the cost of the employer—

(a) will exceed £7,500; and

(b) if, between £7,500 and £25,000, will exceed the greater of

(i) seven times the yearly salary plus the yearly average of other emoluments (excluding directors' fees) for the three preceding years (or shorter period for which such emoluments have been receivable) and

(ii) the capital value of the pension provided under an approved retirement benefits scheme; and

(c) if over £25,000, will exceed the capital value of such a pension as is mentioned in (b) (ii) above.

**Section 379 Funds and Section 388 (1) Scheme—Small Basic Pensions and Augmentation Limits.** A maximum aggregate pension not exceeding £300 can be approved irrespective of length of service or of previous service as a controlling director or of a previous period of self-employment. Where the maximum basic pension does not exceed £5 per year of service or the flat rate pension does not exceed £225, then, subject to the usual undertaking, augmentation may be permitted up to the lesser of £500 or two-thirds of the final remuneration, less the pension equivalent of all retirement benefits from other schemes of the employer or to which the employer has contributed.

### Estate Duty: Release of Life Interest

Where property becomes liable to estate duty under Section 43 of the Finance Act, 1940, by reason of the disposition or determination of an interest limited to cease on the deceased's death, and the settlement under which that interest subsisted (not being a settlement made directly or indirectly by the deceased) came to an end before his death as regards the property in question, the property was formerly regarded as "settled property" for the purpose of Section 33 (1) of the Finance Act, 1954. Following the recent decision in *Dunn v. Commissioners of Inland Revenue* [1961] 2 All E.R. 275, the practice has been reviewed, and the property is now treated by concession as settled or not settled, whichever is in the interest of the taxpayer. It will be recalled that Section 33 (1) of the Finance Act, 1954, gives certain reliefs from the aggregation of property for the purpose of determining the rate of duty.



### Income Taxes Outside the Commonwealth

The fifth supplement to *Income Taxes Outside the Commonwealth*, published last month (H.M.S.O.: £1 15s.), again revises the information previously given and adds notes on two further countries, Italy and Switzerland.

*Income Taxes Outside the Commonwealth* is a loose-leaf work, intended to provide a series of summaries of the income tax laws of selected countries. It is divided into self-contained parts, and is designed to incorporate periodical supplements bringing existing material up to date. The work now covers the United States of America, the Republic of Ireland and eleven other European countries, and has been revised to March, 1961. The first and second supplements having been superseded by material in later supplements, it is necessary, in order to possess a complete volume, to purchase: Parts I and II (including standard four-post binder) £1 15s., and the third, fourth and fifth supplements, priced respectively £1 1s., £1 5s., and £1 15s.

### Double Taxation—Argentina

Preliminary discussions for a com-

prehensive Double Taxation Agreement were held in London on November 27 and 28 between representatives of the Argentine Ministry of Finance and the United Kingdom Board of Inland Revenue. It is hoped to continue the discussions in the course of the next year, when it seems likely that it will be possible to make further useful progress.

### Capital Allowances on Motor Cars

The provisions of the Finance Act, 1961, regarding motor cars continue to attract interest. One aspect has aroused doubts, namely, whether a second-hand car bought for £2,000 or less is affected if its cost when new was over £2,000. The answer appears to be "no". It is the cost to the business (or employee where appropriate) that matters (see Section 23(2) and Section 24). When we come to the limit on deductions for hiring cars, however, the retail price at the time the vehicle was made\* is speci-

\*Possibly the words "at the time when it was made" are intended to apply to the word "expenditure" but they seem too far from that word and would not read naturally in connection with it.

fically referred to, and if that was over £2,000 the allowable hire charge is that proportion of the actual hire charge that £2,000 bears to the said retail value (Section 25). When the car is bought on hire purchase it is the retail price at the date when the contract was made that counts (Section 26).

### Rate of Interest on Tax Reserve Certificates

Tax Reserve Certificates of the Ninth Series issued from November 25 bear interest at the rate of  $3\frac{1}{4}$  per cent per annum tax free. The tax-free rate on certificates purchased before that date remains unchanged. The new rate of  $3\frac{1}{4}$  per cent tax free is equal (if grossed up at the standard rate of income tax of 7s. 9d.) to £5 6s. 1d. per cent per annum gross.

### Plant on Hire Purchase

It is regretted that the illustration on page 682 of the November issue contained an obvious drafting error in that the interest element was not excluded from the annual instalments in calculating the investment and initial allowances.

## Recent Tax Cases

### Income Tax—Schedule A Assessment of Gravel Pit

#### Question for Determination:

Whether part of a farm comprising a gravel pit, sold by the owners to one company and leased by it to another company, together with a licence to extract gravel from it, constituted a new unit of assessment so that an additional Schedule A assessment could be made on it. (Income Tax Act, 1952, Sections 82, 84, 105, 106, 113, 175.)

**Particulars of Case:** In *De Voil v. Welford Gravels Ltd.* (Ch. 1961, T.R. 211) a farm of some 155 acres included a gravel pit of about 21 acres, and the whole farm was assessed under Schedule A at £108 gross and £80 10s. net. Before 1956 the gravel pit had been

used as such only to a small extent, but in that year a large local demand for gravel arose, and the owners of the farm obtained development permission to extract gravel from the 21 acres. It was a condition of the development permission that any necessary structures or machinery should be erected on an adjacent wooded area. Later, the owners sold the 21 acres and the wooded area, making  $23\frac{1}{2}$  acres in all, and completion took place on February 22, 1957. The purchaser company let the respondent company into occupation, and the latter started operations for extracting the gravel at the end of March, 1957. On December 31, 1957, the purchaser company granted a lease of the site to the respondent company for twenty-one years from March 1,

1957, at a rent of £60 a year. On the same day a licence was given to the respondent company to extract gravel from the site in return for a payment of 4s. a cubic yard. About 56,000 cubic yards of sand and gravel were extracted in 1957, and 60,000 cubic yards in 1958. The sums paid to the purchaser company for these years were £11,200 and £12,000 respectively. After the Schedule A assessment for 1957/58 on the farm as a whole had been made, the Revenue became aware of the sale of the  $23\frac{1}{2}$  acres, and the annual value of the farm was apportioned between the owners and the purchaser company. Later, the Revenue learned that the respondent company was extracting sand and gravel from the  $23\frac{1}{2}$  acres, and an additional assessment was made on it under Schedule A for 1957/58 in the sum of £5,000 gross and £3,475 net.

The Crown contended that when the  $23\frac{1}{2}$  acres of land passed out of the occupation of the original owners and into the occupation of the respondent

company it became a new unit of assessment which was assessable as such under Section 82 of the Income Tax Act, 1952. The respondent company relied on Section 84(3) of that Act, which provides that

The annual value of any property which has been adopted for the purposes of income tax under Schedules A and B for any year of assessment shall be taken as being the annual value of that property for the same purpose for the next year of assessment, unless that year is a year of revaluation.

It contended that the additional assessment was invalid because the provisions of the sub-Section could be departed from only in circumstances such as where a new property came into being (for example, a new house built on a bare piece of land), as distinct from a new use of property. The General Commissioners decided that there must be a new property before an additional Schedule A assessment could be raised, and that there was no new property in the case. They accordingly discharged the additional assessment.

(Note: It was decided in *Russell v. Scott* (1948) 30 T.C. 394 that a gravel pit is not within the proviso to Section 82(1) of the Act, which states that tax in respect of quarries of stone, slate, limestone or chalk, etc., is not to be charged under Schedule A).

**The Judgment:** Plowman, J., upheld the finding of the Commissioners. He said it was clear that if the original owners of the land had worked the gravel pit themselves instead of selling it off, the former assessment would have continued to apply, and if they had sold the whole of the farm and the purchaser had worked the gravel pit, the position would have been the same, since a change in the occupation of a unit of assessment as a whole did not occasion a new assessment (Sections 105 and 106 of the Act). There was no compelling reason for reading into the Act a provision that a change in the occupation of part of a unit did so. Section 84 (3) made good sense as it stood without importing into it some such proviso as "unless the property has ceased to be in one occupation." These observations, however, did not apply to the division of a house, which was specifically dealt with in Section 113. The question to be decided was not whether the 23½ acres were a suitable subject for separate assessment, but whether the Revenue had any right to re-assess them merely by reason of the fact that in 1957/58 they were in a different occupation as

compared with the previous year. His conclusion was that the claim of the Crown could not be sustained, but it did not follow that the Exchequer would necessarily lose tax on the money made by the exploitation of the 23½ acres. It might be that the Crown would have its remedy under Section 175 of the Act, which dealt with the taxation of excess rents.

**Summary:** The additional assessment was invalid because the 23½ acres did not comprise a new unit of assessment.

#### Income Tax—Mutual Insurance Company

##### Question for Determination:

Whether two sums received by the respondents on the liquidation of a mutual insurance company, of which they were members, were to be treated as trading receipts in the computation of their taxable profits under Case I of Schedule D (Income Tax Act, 1952, Section 122).

**Particulars of Case:** In *Brogan v. Stafford Coal and Iron Co. Ltd.*; *C.I.R. v. Stafford Coal and Iron Co. Ltd.* (Ch. 1961, T.R. 265), the respondent company carried on the trade of operating collieries and brickworks down to January 1, 1947, when its colliery business was acquired by the National Coal Board under the Coal Industry Nationalisation Act, 1946. Thereafter it continued to carry on its brickworks business. For income tax purposes, the various activities of the company constituted a single trade, which the nationalisation of the collieries did not destroy. In 1934 North Staffordshire Collieries Mutual Indemnity Ltd. (Mutual) was incorporated by a number of colliery proprietors for the purpose of insuring its members against breaches of their statutory and common law duty to workmen who were injured. The respondent company was one of eleven subscribers to the memorandum of association of Mutual (which was a company limited by guarantee without a share capital), and was at all material times a member. Article 130 (as amended) of the articles of association of Mutual provided that on a winding up the surplus assets were to be divided among the members, and such past members as were then existing, *pro rata* to the total amount of the premiums paid in respect of the last five financial years of Mutual preceding January 1, 1947.

Mutual had an income from invested funds, and other income consisting of the premiums paid by its members. In accordance with well-established prin-

ciples—which were not in issue—the members were allowed the premiums paid by them as deductions in arriving at their trading profits, but Mutual was not assessed to tax on the excess of its receipts over its expenses. Following the nationalisation of the coal industry, the functions of Mutual were transferred to the National Coal Board, and its liabilities were taken over at a figure which was considerably less than the moneys in hand. In 1953 Mutual was voluntarily wound up, and there was a sum of £782,180 available for distribution among its members. The company's share of this fund amounted to a total of £58,000, which it carried to capital reserve. The question to be decided was whether the £58,000 was taxable as a trading receipt.

**The Judgment:** Plowden, J., said the crucial fact was that the sums in question were distributions by a liquidator in a winding up. They represented, not a return of premiums, but the respondents' share of the joint stock of Mutual, and it had been held in *C.I.R. v. Burrell* (1924) 9 T.C. 27 that money so distributed, even to the extent that it represented undistributed profits, was capital in the hands of a shareholder. In that case *Atkin, L.J.*, after referring to the fact that a liquidator might earn profits while carrying on the business with a view to a beneficial realisation, had said:

But the shareholder will not receive them as profits, for they are but an accretion to the assets, and if they become surplus assets, it is in that form that the shareholder will receive them. . . . I think that for the shareholder profits have ceased to be profits and have become irrevocably merged in the total sum of assets and should not be treated for taxation as part of his annual profits or gains.

The Crown had contended, however, that the respondent company did not receive the £58,000 *qua* shareholder alone, but as a party to a contract of indemnity insurance. On that point the facts were against the Crown. In the liquidator's statement of account in the liquidation of Mutual there appeared on the credit side the item

Returns to contributories (no share capital) — first distribution, £700,000; second and final distribution, £82,180.

In those circumstances his Lordship concluded that the respondent company received the £58,000 as a member of Mutual and in no other capacity.

It was true that in *Burrell's* case Lord Justice *Atkin* was not then considering whether a distribution of surplus assets in the liquidation of a company could ever be a trading receipt in the hands of



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a member who was a trader. In some circumstances it might—for example, where the business of the member was to deal in stocks and shares. Although *Burrell's* case was not an authority which directly governed the present case, the reasoning of the Court of Appeal pointed to the conclusion that the distribution in question was a receipt on capital account in the hands of the respondent company.

It followed that the appeal in *C.I.R. v. Stafford Coal and Iron Co. Ltd.*, which related to profits tax liability arising out of the same distribution by the liquidator of Mutual, must also be dismissed.

**Summary:** The two sums, totalling £58,000, received by the respondent company on the liquidation of Mutual were receipts on capital account for both income tax and profits tax purposes.

#### **Surtax—Undistributed Income of Company**

**Questions for Determination:** (i) Whether the appellant company was, at the material time, a company to which Section 245 of the Income Tax Act, 1952, applied; and if so,

(ii) Whether a distribution, made by the company eleven months after the end of the period for which its accounts were made up, was made within a reasonable time; and if not,

(iii) Whether the apportionment of income made by the Special Commissioners was correct in principle. (Income Tax Act, 1952, Sections 245, 248, 250, 256, 260.)

**Particulars of Case:** In *Spencer v. C.I.R.*; *Garside v. C.I.R.*; *C.H.W. (Huddersfield) Ltd. v. C.I.R.* (Ch. 1961, T.R. 259) the appellant company, which carried on business as a wool merchant, had an issued capital of £50,000 in preference and ordinary shares, all of which was held by four individuals (the Spencers and the Garsides). In January, 1957 (and thus towards the end of the company's accounting period from April 1, 1956 to March 31, 1957), a number of transactions took place as a result of which (i) the company transferred all its trading assets to two holding companies; (ii) the only assets left in the company were two sums of £25,000 and £279,000, respectively, in cash; (iii) the Spencers and the Garsides ceased to hold any shares in the company and received in exchange shares to the value of £60,000 in the holding companies

together with bills of exchange given by those companies for £219,500; and (iv) the whole of the share capital of the company (now increased to £50,750) was held as to nine-tenths by Anglo-French Trust Ltd. and as to one-tenth by Standard Industrial Trust Ltd. (the holding companies). Anglo-French Trust Ltd. was not at any time a company to which Section 245 applied.

On January 31, 1957, the company ceased to trade, and within a short time after that date its accounts were made up for the period April 1, 1956, to January 31, 1957, and showed a net profit of £32,103. These accounts were adopted by the company in general meeting on February 14, 1957, when the company confirmed the payment of a dividend on the preference shares but resolved that no dividend be paid on the ordinary shares for that period. On April 27, 1957, the Special Commissioners issued a notice under Section 250 (1) of the Act of 1952 requiring information which might lead to a surtax direction. On December 13, 1957, at an extraordinary general meeting, the company resolved to pay a dividend on the ordinary shares for the period in question amounting to £59,130 8s. 8d. gross, or £34,000 net. On July 7, 1958, the Special Commissioners made a direction under Section 245 and apportioned the actual income of the period on a time basis, as to 303/306ths to the Spencers and Garsides, and as to 3/306ths to the two holding companies. The sums so apportioned were £54,282 and £537, respectively. The £54,282 had not, in fact, been received by the Spencers and the Garsides.

**The Judgment:** Plowman, J., said that Section 256 of the Act (which defined the meaning of "company" for the purposes of Section 245) stated, inter alia, that Section 245 applied to any company which was under the control of not more than five persons and which was not a subsidiary company or a company in which the public were substantially interested. It was an extremely involved Section, but this much was common ground between the parties: that if, in apportioning the income of the company under Section 248 (1) in accordance with the respective interests of the members, it would be open to the Special Commissioners to apportion more than one-half of the income of the company to the Spencers and the Garsides, as would be the case if it were permissible for them to make the apportionment on a time basis, then the company was not a subsidiary of Anglo-French Trust

Ltd. and was a company to which Section 245 applied. It was conceded for the company that, in a case in which a direction and apportionment could properly be made, the interests of persons who were members during the relevant accounting period but who had ceased to be members before the end of that period fell to be taken into account.

But the company contended that, since an apportionment could not be made before the end of the relevant period, it was necessary to look to that point of time and no other to see who was really interested in the fund of income which came into being at that date, and in the present case the Spencers and the Garsides had no interest at all on January 31, 1955. That argument, said his Lordship, was contrary to the reasoning of the House of Lords in *Fendoch Investment Trust Co. v. C.I.R.* (1945) 27 T.C. 53, which led to the conclusion that the apportionment which the Special Commissioners had made in the case before him was justified; for in a case where a member owned all the shares in a company and sold them all during an accounting period, the obvious, if not the only possible, way to give effect to an apportionment in accordance with the rights of the members was on a time basis. That dealt with questions (i) and (iii).

Assuming that a reasonable time was still running on February 14, 1957, when the company passed a resolution to pay no ordinary dividend for the period ending January 31, 1957, the passing of that resolution terminated that reasonable time. The case was analogous to *Lionel Sutcliffe Ltd. v. C.I.R.* (1928) 14 T.C. 171, where it was held that a resolution passed by a company for voluntary liquidation terminated a reasonable time. If that was wrong and the question was a question of fact, it was pre-eminently one for the Special Commissioners; and since there was ample evidence on which they could find that the distribution made by the company in December, 1957, was not made within a reasonable time after January 31, 1957, his Lordship was not prepared to interfere with that finding, and that disposed of question (ii). The appeals of Spencer and Garside were appeals by the individual shareholders against the assessments to surtax made in consequence of the direction and apportionment made upon the company. In view of the decision against the company it was common ground that these appeals must also be dismissed.



**Summary:** (i) The company was one to which Section 245 of the Income Tax Act, 1952, applied; (ii) the distribution of income was not made within a reasonable time in terms of that Section; and (iii) the apportionment of income made by the Special Commissioners was correct in principle.

#### Estate Duty—Right to Reimbursement

##### **Question for Determination:**

Whether, in the case of a settlement governed by the law of Canada, a deduction should be made from the assets of the estate of the second life tenant, for the purposes of duty on that estate, for the amount of estate duty payable by the second life tenant on the death of the first life tenant (the settlor's widow) (Finance Act, 1894, Sections 7 (1) (b), 8 (4), 9 (6), 20 (2)).

**Particulars of Case:** The case of *Re Latham (deceased), C.I.R. v. Barclays Bank Ltd.* (Ch. 1961, 3 All E.R. 903; 3 W.L.R. 1154) is highly technical. In 1931 a settlor made a settlement in Canadian form of moveable property situated in Canada. The sole trustee was a Canadian corporation. The fund was settled on certain trusts as to income during the life of the settlor, and after his death one fourth part of the trust fund was to be set aside and the income paid to the settlor's widow during her life. On the death of the widow the one-fourth share was held on trusts under which P was entitled to a protective life interest in one-third of it, and R became absolutely entitled to the one-third of the one-fourth share on P's death. In October, 1931, the settlor died, but under the law then applicable no claim for estate duty arose in respect of the trust fund. In December, 1950, the settlor's widow died, and estate duty became payable on the one-fourth share in which she had had a life interest. P became accountable for one-third of the duty so payable, but he died in July, 1955, domiciled and resident in England, without having paid that duty. His executors claimed a deduction against P's free estate for the amount of the duty and interest. The Revenue admitted the right to deduct interest, but disputed the right to deduct the principal amount of the duty, on the ground that it was a debt in respect of which P's executors had the right to reimbursement under Section 7 (1) (b) of the Finance Act, 1894, either by R personally under Section 8 (4) of the Act, or out of the property

representing the share of P in the trust fund, under Section 9 (6).

##### Section 7 (1) states:

In determining the value of an estate for the purposes of estate duty allowance shall be made for reasonable funeral expenses and for debts and incumbrances, but an allowance shall not be made—... (b) for any debt in respect of which there is a right to reimbursement from any other estate or person, unless such reimbursement cannot be obtained.

##### Section 8 (4) states:

Where property passes on the death of the deceased, and his executor is not accountable for the estate duty in respect of such property, every person to whom any property so passes for any beneficial interest in possession, and also, to the extent of the property actually received or disposed of by him, every trustee, guardian, committee, or other person in whom any interest in the property so passing or the management thereof is at any time vested, and every person in whom the same is vested in possession by alienation or other derivative title shall be accountable for the estate duty on the property, and shall, within the time required by this Act or such later time as the Commissioners allow, deliver to the Commissioners and verify an account, to the best of his knowledge and belief, of the property.

##### Section 9 (6) states:

A person having a limited interest in any property, who pays the estate duty in respect of that property, shall be entitled to the like charge, as if the estate duty in respect of that property had been raised by means of a mortgage to him.

**The Judgment:** (i) R was not an accountable person within Section 8 (4) of the Act for the duty, because (a) he took an interest in the fund subject to two successive life interests and the duty was chargeable on the death of the first of the life tenants to die (*Re McNeill* [1957] 3 All E.R. 508 applied); and (b) he was not within the second category of accountable persons described in Section 8 (4) in the words "to the extent of the property actually received... by him, every trustee, guardian, committee or other person in whom any interest in the property... is at any time vested", because the latter description "or other person" must be construed *ejusdem generis* with the immediately preceding words, and R was not entitled in a fiduciary capacity, but beneficially (*Tillmanns & Co. v. S.S. Knutsford Ltd.* [1908] 2 K.B. 385 applied).

(ii) (a) Section 9 (6) of the Act conferred a right to a limited owner's charge, not only on the limited owner himself, but also on his executors. Such a charge was not a "charge for estate duty"

within the meaning of Section 20 (2), so that the sub-Section did not operate to prevent the creation of a limited owner's charge over the capital of P's share in the trust fund [note: Section 20 (2) provides that nothing in the Act of 1894 shall be held to create a charge for estate duty on any property situate in a British possession, while so situate, or to authorise the commissioners to take any proceedings in a British possession for the recovery of any estate duty]; and (b) the settlement being a Canadian settlement, it was not possible for a piece of English legislation such as Section 9 (6) to interfere with the rights under such a settlement and to confer upon one of the beneficiaries a charge over the trust property inconsistent with the rights of the beneficiaries under the proper law of the settlement, so that the executors of P had no right of reimbursement against the capital of P's share in the trust fund by virtue of that sub-Section (*Spiller v. Turner* [1897] 1 Ch. 911 and *London and South American Investment Trust Ltd. v. British Tobacco Company (Australia) Ltd.* [1927] 1 Ch. 107 applied).

(iii) Assuming, in the absence of evidence to the contrary, that Canadian law was the same as English law, there was an equitable obligation under the general law applying to the settlement of property in succession which entitled P and his executors to claim that such portion of the estate duty as represented the charge in respect of the capital of P's share in the trust fund should be paid to them out of the capital; that that right was a right to reimbursement within the meaning of Section 7 (1) (b) of the Act, and on that ground P's estate had a right to reimbursement from the capital of P's share in the trust fund. Consequently, the debt was not a permissible deduction from the capital of the estate.

**Summary:** The deduction claimed could not be made from the assets of the estate of the second life tenant, P, for the purpose of computing the duty payable.

#### Estate Duty—Contingent Liability

##### **Question for Determination:**

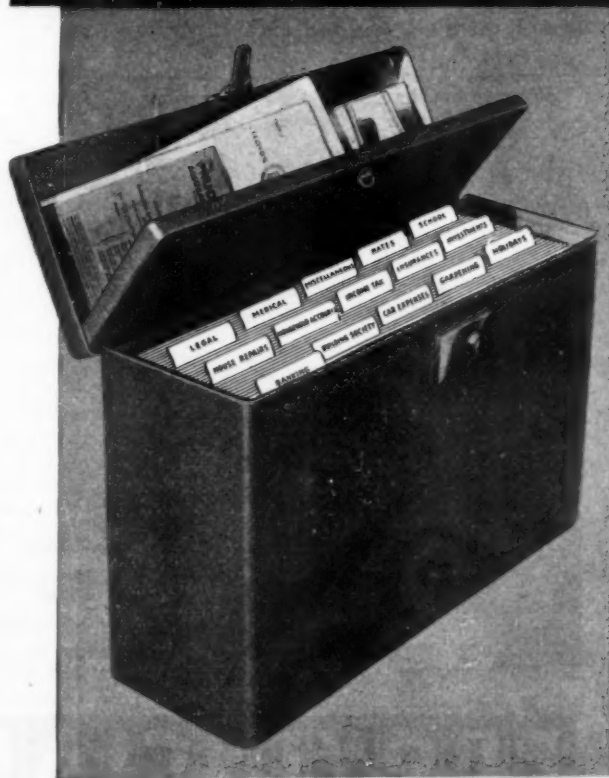
Whether, on the true construction of Section 50 (1) of the Finance Act, 1940, as applied by Section 55 (2) (a), any allowance could be made for a balancing charge (giving rise to income tax and profits tax) in valuing the shares of a company for estate duty purposes at the deceased's death, on the ground that such charge was a "contingent liability"



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within Section 50(1) at that date (Finance Act, 1894, Section 7 (5)—Finance Act, 1940, Sections 50 (1), 55 (1), (2) (as amended by the Finance Act, 1946, Section 47, Schedule II, Part I)—Income Tax Act, 1952, Sections 292 (1), 297).

**Particulars of Case:** In *Re Sutherland (deceased), Winter and Others v. C.I.R.* (House of Lords, 1961, 3 W.L.R. 1062— noted in ACCOUNTANCY for September, 1959, pages 483-4, and October, 1960, page 591), the deceased had "control" of a company within the meaning of Section 55 of the Finance Act, 1940, during the five years ending with his death on March 29, 1953, so that the shares which he held fell to be valued for estate duty purposes by reference to the net value of the assets of the company, pursuant to Sections 50 and 55 of that Act. The assets of the company at the date of death included five ships, the value of which at that date had been agreed with the estate duty office at £1,150,000. The cost of the ships to the company for income tax purposes had been agreed at £847,907, and at the deceased's death the company had received capital and annual allowances under the provisions of Chapter II of Part X of the Income Tax Act, 1952, to the amount of £557,158, leaving "expenditure unallowed" (as defined by Section 297 of the same Act) of £290,749. The ships were sold during the period November, 1953, to February, 1954, for £1,070,505, and this sale gave rise to balancing charges of £548,318 under Section 292 of the Act of 1952, which resulted in additional income tax and profits tax assessments of £370,114 13s.

Section 50 (1) of the Finance Act, 1940, provides as follows:

In determining the value of the estate for the purpose of estate duty the provisions of sub-Section (1) of Section 7 of the Finance Act, 1894, as to making allowance for debts and incumbrances shall not have effect as respects any debt or incumbrance to which assets of the company passing on the death by virtue of Section 46 of this Act were liable, but the Commissioners shall make an allowance from the principal value of those assets for all liabilities of the company (computed, as regards liabilities which have not matured at the date of the death, by reference to the value thereof at that date, and, as regards contingent liabilities, by reference to such estimation as appears to the Commissioners to be reasonable).

The Court of Appeal, affirming a decision of Danckwerts, J., had held that no allowance should be made against the principal value of the assets of the company for the additional tax (resulting

from a balancing charge) which at the date of the deceased's death would have been exigible if the ships had then been sold. The House of Lords, by a majority of three to two, reversed this decision.

**The Judgment:** Lord Reid, who delivered the leading judgment, said the position of the company at the date of the deceased's death was that, by applying for and accepting allowances in respect of the ships, it became bound by statute to pay tax under a balancing charge when it ceased to use the ships in its trade, provided the moneys it received for them exceeded any expenditure on them which was still unallowed. But the company would have to pay tax only if there was no alteration in the law and if, when the question arose, there was in existence a Finance Act determining the rate of income tax. So there were two contingencies which had to be fulfilled or conditions which had to be purified before tax could be demanded from the company: the sums received for the ships must exceed the unallowed expenditure, and there must be no relevant change in the law and no failure to enact a Finance Act. The question was whether in those circumstances there was a contingent liability of the company to pay tax.

No doubt the words "liability" and "contingent liability" were more often used in connection with obligations arising from contract than with statutory obligations, but if a statute said that a person who had done something must pay tax, that tax was a "liability" of that person. It seemed that the phrase "contingent liability" might have no settled meaning in English law, for in *Re Duffy* [1948] 2 All E.R. 756 the Court of Appeal regarded its meaning as an open question. Still, the Finance Acts were United Kingdom Acts and there was at least a strong presumption that they meant the same in Scotland as in England. Conditional obligation and contingent liability had no different significance, and in Scots law (see *Erskine's Institute*, 3rd edition, Vol. 2, Book III, Title I, Section 6, page 586) a conditional obligation meant, in effect, a liability which, by reason of something done by the person bound, would necessarily arise or come into being if one or more of certain events occurred or did not occur. If English law was different—as to which his Lordship expressed no opinion—the difference was probably more in terminology than in substance.

Section 50 (1) of the Act of 1940 directed the Commissioners to make an allowance for (or deduction in respect

of) all liabilities of the company, and it divided liabilities into three classes. First, where the liability was a sum immediately payable, there was no need for computation and the whole was deducted. Secondly, the liability might be one which had not matured, which would include a sum payable at a definite future date or a sum payable on an event which must occur sometime. The third class was "contingent liabilities", which must mean sums payment of which depended on a contingency, that is, sums which would become payable only if certain things happened, and which otherwise would never become payable. In that case calculation was impossible, so the Commissioners were to make such estimation as appeared to be reasonable. This last class appeared to cover exactly the conditional obligation dealt with by *Erskine*, for the essence of a contingent liability was that it might never become an existing legal liability. It was impossible for the company to realise the value of the ships without having immediately to pay away a large proportion of what it received as tax; so it would be a fiction to say that the full value of the ships could be regarded as swelling the assets of the company. The deduction must be allowed, but it would not be the sum of £270,079, which was an agreed figure of what would have been payable in tax if the ships had been sold at the date of the deceased's death. The case must go to the Commissioners in order that they might make the estimation required by Section 50 (1) on the footing that, at the date of death, liability to pay under a balancing charge was a contingent liability which would become an immediate liability if the company sold or otherwise ceased to trade with the ships and received sums exceeding the expenditure still unallowed.

**Summary:** An existing legal liability was not essential to the creation of a "contingent liability." The company by applying for and accepting allowances in respect of the ships in question had become bound by statute to pay tax under a balancing charge when it ceased to use the ships in its trade. Consequently, if the moneys which it received for the ships exceeded any expenditure on them which was still unallowed, such liability was a "contingent liability" within Section 50 (1) of the Finance Act, 1940. Accordingly, the Commissioners of Inland Revenue were required pursuant to the provisions of that sub-Section to make an estimate of such contingent liability as appeared to them to be reasonable.



## Tax Cases— Advance Notes

**COURT OF APPEAL (Evershed, M.R., Donovan and Danckwerts, L.JJ.)**  
**Ridge Nominees Ltd. v. C.I.R.** November 9, 1961.

Their Lordships unanimously allowed this appeal by the Revenue from the decision of Buckley, J., and held that where stock was compulsorily transferred under the Companies Act, 1948, Section 209 (3), the instrument of transfer must be stamped as a conveyance on sale. (See *ACCOUNTANCY* for May, 1961, page 296.)

**Johnson v. Jewitt.** November 10, 1961.

Their Lordships unanimously dismissed this appeal by the taxpayer from the decision of Buckley, J., and held that an elaborate series of transactions had not resulted in a trading loss, and that dividends, in respect of which a claim was made for the recovery of tax deducted on payment, were paid out of capital reserves. (See *ACCOUNTANCY* for July, 1961, page 438.)

**CHANCERY DIVISION (Cross, J.)**  
**Erddig Motors Ltd. v. McGregor.** October 18, 1961.

Mr. Dodman was the controlling shareholder of the appellant company. He had bought all but 150 out of 15,000 shares in another company from Mr. Davies. He paid £22,275 for these shares, and also certain other sums as compensation for loss of office. In addition, he lodged £8,000 in notes at a bank where Mr. Davies had an account. The General Commissioners did not believe Mr. Dodman's account as to how he had come by this money, and found that the £8,000 represented undisclosed profits of the appellant company. Cross, J., while criticising the form of the stated case, held that there was ample justification for this finding.

**Faye v. C.I.R.** October 19, 1961.

The appellant taxpayer had a domicile of origin in Western Australia. In 1949 her husband acquired an English domicile, and her domicile, being dependent on that of her husband, also became English. In 1951 the marriage was dissolved, and the appellant thereupon formed the wish to return to Western Australia, but she was not able to do so until after the years under appeal. Cross, J., affirming the Special Commissioners, held that, although the appellant had the

necessary intent for a change of domicile, she had not—as the law requires—actually left England. It made no difference that her domicile of choice had been dependent on that of her husband. It followed that for the years under appeal the appellant was liable, under Section 132 (1) of the Income Tax Act, 1952, to United Kingdom income tax on the whole of her income derived from property in Australia. If in those years she had not been domiciled in the United Kingdom, then by Section 132 (3) she would have been taxed only on the income she had remitted to this country.

**C. E. Neale & Company Ltd. v. Beak.** October 23, 1961.

The appellant company traded as a leather merchant until October 1, 1958, when its business was taken over by Mr. Neale, who held 2,000 of its 2,001 issued ordinary shares. The accounts of the business were made up to July 5 in each year, but separate accounts were made up for the period from July 6 to September 30, 1958, and for the period from October 1, 1958, to July 5, 1959. In the first of these periods the company made a loss of £590, and in the second Mr. Neale made a profit of £1,332. The company also made a loss of £626 in the year ended July 5, 1958. For the year of assessment 1958/59 the company claimed that it could set off a trading loss of £746 (£590 plus a quarter of £626) against its other income for that year, under Section 341 of the Income Tax Act, 1952. Cross, J., held that Section 17 of the Finance Act, 1954, applied to this case, so that on Mr. Neale's succeeding to the company's trade it should not be treated as discontinued. The result was that there was no loss for the year 1958/59, since the profits for the period from October 1, 1958, to April 5, 1959, at £858 (two-thirds of £1,332) were greater than the loss, at £746, for the period from April 6, 1958, to September 30, 1958.

**Vestey v. C.I.R.** October 23, 1961.

The appellant sold a block of shares worth approximately £2 million for £5,500,000, payable, without interest, by 125 equal annual instalments of £44,000. Cross, J., affirming the Special Commissioners, held that each instalment should be dissected into a capital and an interest element, and that the income element was a part of the appellant's total income chargeable to surtax.

**Lucy and Sunderland Ltd. v. Hunt.** October 27, 1961.

In 1945 the appellant company ac-

quired from another company the whole of its property, which consisted of houses and plots of land. At the time of the sale the vendor company had for some years held this property as an investment, although previously, during a period when that company was dealing in property, it had represented trading stock. In a period of ten years starting in 1948 the appellant company sold some of the houses and all the plots. It did not approach prospective buyers or instruct estate agents, and it had no selling organisation. Cross, J., held that there was no evidence to justify the decision of the General Commissioners that the company was trading in property.

**Butter v. Bennett.** November 6, 1961.

The respondent taxpayer, who was the manager of a paper mill, was, for the proper performance of his duties, required to live in a house close to the mill, which belonged to his employers. He was supplied free of charge with coal, electricity and the services of a gardener. Cross, J., found that the coal was not a perquisite of the office within the generality of Schedule E, since the respondent occupied the house in a representative capacity only. On the other hand, all the benefits were taxable as benefits in kind under the Income Tax Act, 1952, Section 161 (1). Relief under Section 161 (3) was disallowed, since the expenditure by the employers on these benefits was not "expense incurred . . . in connection with provision of living accommodation for an employee" within the terms of that sub-Section. On this point the Judge reversed the decision of the Special Commissioners.

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## Machines in Business

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A new high-density magnetic tape system, which transfers data to and from magnetic tape at 133,000 decimal digits per second, announced by Honeywell Controls Ltd., is claimed to be 40 per cent faster than any other system in use. The high speed results from the use of a density of 1,112 decimal digits per inch of tape, compared with the previous 794 per inch.

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Forty sliding levers on the face of the *Unicall* set can be positioned to correspond to individual letters or numerals in the message. A message display window enables the operator to check his message before it is transmitted. The message is then sent by dialling the computer on the telephone adjacent to the *Unicall* device. When the connection has been made, an acknowledgment signal is fed back into the *Unicall* set. Receipt of this signal trips a scanning mechanism, and the message itself is transmitted at the rate of twenty characters per second over the telephone network. The voice reply begins immediately and takes from three to five seconds to transmit. Before the reply is made, however, the computer makes various tests, checking against faulty or incomplete messages and the duplication of previous trans-

actions. As soon as the pre-recorded voice reply has been transmitted, another signal disconnects the *Unicall* set from the line, making the line available to other users.

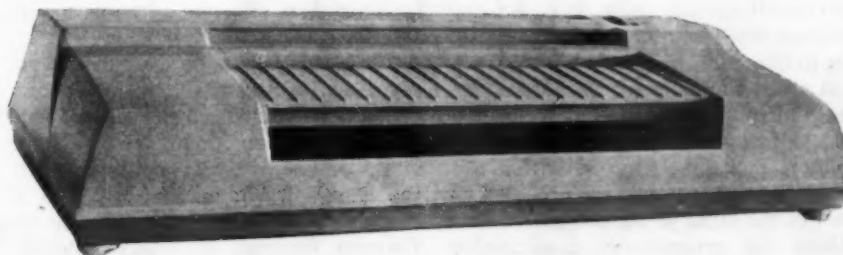
It is understood that similar systems are being developed for hotels, car hire companies, stockbrokers, credit reference organisations, department stores and aircraft manufacturers.

### World-Wide Automation of R.A.F. Supplies Records

A new system of supply control, based on *N.C.R.* accounting machines coupled to automatic paper tape recorders, is now being set up by the Air Ministry. The equipment, which is to be installed at Royal Air Force stations and maintenance units throughout the world, will produce normal printed records of receipts and issues for local use, and simultaneously punch information into paper tape for transmission by teleprinter line to the Supply Control Centre. No longer will stations need to re-order supplies—all replacements will be dealt with automatically by the Supply Control Centre.

### Photocopying Large-Size Documents

Accountants on the lookout for a photocopier capable of reproducing final accounts of brief size will be interested in Model 115, just released by *A. B. Dick Company of Great Britain Ltd.* This weighs 27½ lbs. and has a two-tone finish of frost green and beige. The base and general framework are of corrosion-resistant metal, and the cover of lightweight plastic. The manufacturers claim that the machine will produce exact, sharp, permanent copies of anything typed, printed, duplicated, photographed, written or drawn, in any colour, in ink, pencil, ball pen or crayon; and a demonstration soon showed that it lived up to their claims. Copies are sharp black on bone white. They are made under ordinary room-lighting conditions, no darkroom being necessary. Brief size copies cost approximately 1s. 3d., quarto size 6d. The machine itself retails at £95.



*Dick Model 115 Brief-sized Photocopier*



### The Xeronic

Illustrated this month is the *Rank Xeronic Printer*. Rank Precision Industries realised some years ago that an output printer of really high speed and great reliability was essential if electronic computers were to be suited to commercial applications demanding a large daily output of printed forms such as invoices. The printers then available were mechanical devices the moving parts of which operated at high speed—a feature neither conducive to reliability nor offering scope for the greatly increased speeds that would be necessary if they were to match those of the newer range of computers, then in development and now in production.

The problem of designing a non-mechanical printer was already being studied in the central research laboratories of the company when, in 1956, the fundamental solution was provided by the formation within the Rank organisation of an Anglo-American company, Rank-Xerox Ltd. The new company was founded in conjunction with Haloid-Xerox Inc., from which it acquired the patent rights in the use of xerography outside North America. Since then production engineering has been completed and the printer is now in production.

The word xerography is derived from two Greek words signifying "dry writing." Xerography is not a chemical process, nor does it employ liquid inks; it depends on the photo-conductive properties of a light-sensitive element, selenium. In the absence of light this substance acts as an insulator and can retain an electric charge on the surface, but when illuminated it becomes a conductor and the charge rapidly leaks away.

By the use of xerography and an electronic method of character generation, the machine can produce printed forms at a linear paper speed of 40 feet per minute. This gives a maximum computer output rate of 4,700 characters per second or 2,880 lines per minute.

Besides printing characters representing the computer output, the machine also simultaneously prints its own form outlines. The versatility of the printer is due to this feature, together with the fact that all its functions are entirely under the control of the computer. All orders and information for operating the printer, including form selection and tabulation instructions, are provided as part of the input to the computer. This allows the programmer considerable freedom in specifying form layouts, and



*Rank Xeronic Printer*

permits a change from one type of form to another merely by inserting the form number in the appropriate order. In this way up to four (in some cases up to thirty-two) form outlines are available for immediate selection without loss of printing speed.

The machine can be used in one of two ways. As part of a large, high-speed computing system such as Emidec 2400, a Ferranti Orion, or an AEI 1010, it works on line by direct connection with the computer. In conjunction with a medium-sized computer, such as a Ferranti Pegasus, an English Electric Deuce, or an Emidec 1100, it may be

operated off-line for maximum efficiency.

Because plain, unprinted paper is normally used, the running costs of the machine are low. Naturally the actual figure depends on the type of paper employed, but for business use the cost of paper and all xerographic consumables (such as toner, cleaning materials, lamps, cathode-ray tubes and xerographic drum) is just over one penny per square foot. The machine itself costs from £60,000 to £80,000 (according to specification) and is thus likely to supersede other methods of form preparation only where full advantage can be taken of its amazing capacity.



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## The Month in the City

### Puzzled Investors

Investors, as such, have been at least as puzzled as the public at large by the developments of recent weeks, particularly in the matter of the pay pause. It can be conceded that if this were to fail the chances of avoiding inflation would be slight. A year ago that would have meant a rush from fixed interest into equities, but the ideas of the investing public on the benefits of inflation for industry have changed. Although there are still those who favour a slow and steady rise in prices, there are many more who do not see how the ill effects of a fresh devaluation could be avoided. Despite this, there does not seem to be any general conviction that the Government will see the policy through to a successful conclusion. The threat to its success contained in the concession by the electricity industry caused a general holding off by investors and a fall in almost all prices, and it was only when the Chancellor stated, and later reaffirmed, that things would be better in the New Year that equities recovered. Even so their level is as much below the peak touched in the second week of November as it is above that of a week earlier, and the recovery is hesitating. One must not be surprised at this, for figures of production and overseas trade continue to be disappointing, while many company results are poor and some worse than was expected. The one exception to the rule of difficult markets has been gold mining shares, which, after some minor setbacks, have risen 5 per cent on the month. This results in part from signs of relaxation in the Union of South Africa but even more, perhaps, from uncertainty about the future value of the dollar.

### Gilt-Edged Surprise

Another question has been posed by the decision of the authorities to repay in cash over one-third of the £758 million of Conversion stock due mid-February next. Conversion is offered into either a further slice of the 5½ per cent Funding 1982-84 (to a maximum of £200 million) or 6 per cent Conversion 1972 (to a maximum of £300 million). It is a fairly safe guess that a considerable proportion of the stock held—inside—will be converted, and that discount houses holding any maturing stock may be not unwilling to have their bond holdings reduced. This constitutes a minor funding operation and a

considerable net repayment of debt. A further problem arises from the fact that some unknown quarter received 99 per cent of the £30 million of 63-day Treasury Bills offered on December 8: an unprecedented reverse for the market syndicate.

### Currency Uncertainties

Despite a marked narrowing of the margin of short-term rates between London and New York there is still a considerable influx of funds to this country, and, although our trade position causes anxiety, we have been able to repay a further £50 million to the I.M.F. and add £9 million to our reserves during November. At the moment the position of sterling does not cause acute anxiety and the currency has been strong on the exchanges. But this is due in part at least to acute uncertainties about the dollar, and there have been daily references to the probability that it will be devalued in terms of gold. This view is supported by those who believe that one of the world's troubles is a shortage of gold for the settlement of international balances. The alternative view—that the affairs of the major industrial countries ought to be so conducted that their currencies are an acceptable alternative to gold—receives less support but is, perhaps, fundamentally more sound. However this may be, a rise in the dollar value of gold would be followed by a similar mark-up in other currencies; this would, for some time at least, be good for gold producers, although perhaps very bad for almost everyone else. The position of both sterling and the dollar has recently been made more difficult by reports, now officially denied—for what that is worth—that the Italian lira is to be revalued upwards. The lira is certainly a strong currency, but its strength largely depends on a huge favourable balance on the tourist trade, and plans for the development of Southern Italy will be very costly in materials and imports.

The likelihood of a revaluation seems to have been exaggerated, but the troubles facing both sterling and the dollar are real and intractable unless the United States drastically reduces its foreign aid programme. In these circumstances any further fall in short-term rates here is now thought to be less probable than it was some weeks ago. The Funds have been on offer most of the month, but there has a distinct rally

in the shorter end of the market since the favourable forecasts of the Chancellor. A considerable flow of new issues helped to force prices down and the total raised was, according to the figures of the Midland Bank, £28.2 million, making the aggregate for eleven months £587.8 million, which is more than any previous total for a calendar year. After two reductions in Bank Rate, there have been some withdrawals of foreign funds from longer term investment here, but deposits and investments in seven-day municipal loans have grown. The rate for these is now close to that for loans of a year or more.

### Capital for Stock Jobbers

One of the weaknesses of the London stock market which has been long recognised is the fact that, with taxation at recent levels, it has been impossible for members of the Exchange to accumulate capital at a pace to equal the rise in the money value of the business done. Whatever may be said of the effect on brokers, the value of the jobber to the investing community has been diminished accordingly. He simply has no longer the capital to look far ahead and so there is little he can do to smooth the fluctuations in the prices of the securities in which he deals. The total disappearance of some small jobbing firms and the amalgamation of others, while reducing competition, has done little to cure the capital shortage. A committee of members set up to look into this matter has now reported. Having rejected two suggestions that non-members should be admitted to partnership with liability limited to the capital put in, it advances three proposals which might prove acceptable if strictly controlled by the Council of the Exchange. These are (i) the acceptance of loan capital at rates varying with profits; (ii) that non-members should be accepted as partners with unlimited liability; (iii) that the limitation on the number of members in a corporate member company should be abolished. The adoption of all or any of these suggestions would probably accelerate the reduction in the number of small firms. It is not clear whether the majority of jobbers would welcome the added responsibility of dealing with outside money. Some apparently desire to be allowed to participate in other business outside the Exchange. At present this is permitted only with Council consent, and it would not seem to be conducive to that strict attention to the business of jobbing which is certainly needed if substantial capital is to be profitably employed.



## Points From Published Accounts

### Interim Financial Statements

The number of larger companies providing their shareholders with interim accounts or progress reports grows steadily. These generally take the form of a short chairman's statement, together with a profit and loss account or, in the case of a group, a consolidated profit and loss account. The emphasis is normally upon simplicity, the report commonly occupying only two or three quarto pages. For some reason, balance sheets are the exception.

Reproduced this month are the contents of the progress report of *Francis Sumner (Holdings) Ltd.* for the six months ended June 30, 1961. The Francis Sumner Group, while mainly occupied with dress manufacturing and activities ancillary to the textile industry, is also active in the radio and television retail and rental trade.

It is interesting to compare British interim accounts such as these with the information provided by the larger companies in the United States. *The*

*Eastman Kodak Company*, for instance, in addition to supplying a "Mid-year Report to Shareowners" which is very similar to those sometimes provided by British companies, sends to "shareholders and friends" a short brochure entitled *Highlights*. This is a chatty, easy-to-read description of new products, research facilities and overseas developments, concluding with brief news snapshots. From it one can learn such tit-bits as that Kodak men and women submitted 39,000 suggestions during 1960 for plant and product improvement, cost reductions and increased safety. Nearly 39 per cent of these were accepted, earning \$318,004 for company employees. In case it be thought that Kodak's suggestion scheme is something new, the company points out that it was established by George Eastman over sixty years ago.

### FRANCIS SUMNER (HOLDINGS) LIMITED

#### Progress Report for the six months ended June 30, 1961

THE DIRECTORS HAVE PLEASURE IN PRESENTING AN INTERIM REPORT  
OF THE AFFAIRS OF THE FRANCIS SUMNER GROUP OF COMPANIES FOR  
THE SIX MONTHS ENDED JUNE 30, 1961.

#### 1. Review of the Trading Companies

The Group Trading Profit, excluding Investment Income, for the half year ended June 30, 1961, was £105,099 (1960—£102,572) so that it will be seen that our overall trading position is very similar to that of a year ago. Most of our garment manufacturing companies have progressed and show increased turnover and profits and have sound order books, but generally the dress manufacturing companies' results are below those of a year ago. This is common to the Dress Trade this year.

Turning to the three companies (Brough, Nicholson & Hall Ltd., A. W. Hewetson Ltd. and Buttons Ltd.) which are ancillary to the textile industry, the first named (Brough) have produced a very similar result to that attained in 1960, but both A. W. Hewetson Ltd. and Buttons Ltd. have earned less profit. The lace and embroidery trade is feeling the effects of overseas competition and margins and prices are keener with a consequent effect on profits. Buttons Ltd., whilst maintaining turnover, have had to face increased labour and other costs as well as the cost and dislocation of substantial re-organisation. These have adversely affected final profits. The "Featherwate" tubular furniture is still extremely popular although the demand this year has fallen short of our expectations.

Our Retail and Rental Television and

Radio Group have increased their profits over those of a year ago and have enjoyed a satisfactory six months' trading season.

#### 2. The Next Six Months' Trading

Although we have had a satisfactory first half year I have always pointed out that it is the trading in the second half of the year that really determines the year's results and we are approaching this period with caution.

All of our companies are stronger than a year ago with keen and alert management backed by efficient production, design and sales organisations, but the recent financial controls imposed by the Government are bound to have their effect on our future trading and profits. Our costs of borrowings will be raised substantially and there may well be some slowing down in demand. To these factors has to be added the effect on margins of wage awards which cannot always be passed on to the customer in the form of higher prices.

The Board, with the full support of the operating companies' management teams, are fully alive to the problems that are likely to arise during the next few months and are planning accordingly, but it cannot be emphasised too strongly that we are approaching a period of difficult trading.

This makes it impossible at this stage to forecast the probable final results for 1961

and I can only repeat what I said at the Annual General Meeting in May, namely, that it is quite clear that it will take a great effort on everyone's part if we are to equal our 1960 profits.

#### 3. The Future

We did not make any new acquisitions in the first half of this year although we have examined many companies who wished to join our Group. We have disposed of two small companies—Woodward & Co. (Whitefield) Ltd. and Mountain Mills Co. Ltd.—in both cases at satisfactory prices showing good profits on sale. The profit contribution of these two companies was relatively small and both of them were engaged in trades quite different from our others, so when attractive offers were received we decided to accept.

We are just completing the purchase for cash from the Lyndale Fashion Group of their fully-equipped Walthamstow freehold factory and well-known trade name of *Peter French*. This will meet a need for further output from our dress and garment manufacturing companies as well as adding a valuable trade name to our Group.

#### 4. Investment in Hide & Co. Ltd.

You will have seen that for the year ended January 31, 1961, Hide & Co. Ltd. made a small net loss and our investment in this

Company is at the present time most disappointing. However, a major re-organisation of the Hide Group is being carried out and at the Annual General Meeting of Hide & Co. Ltd. on September 22, I anticipate being able to announce the completion of certain matters now under final negotiation which will be of great value to that Company and, consequently, to the value of our investment.

#### 5. Interim Dividend

Although the Group profit for the first half year compares reasonably with that for 1960, your Directors feel that they must have full regard to the credit restrictions

imposed by the Government and the threat of possible further controls.

In a Group such as this, where in recent years we have concentrated our efforts towards increasing turnover and efficiency with a view to earning more profit on a sounder basis, these recurrent swings in the Government's economic policy play havoc with sound planning and make it essential that we improve the company's liquid position.

For this reason, your directors have declared an interim dividend in respect of the year ending December 31, 1961, of 5 per cent (less tax) payable on November 30, 1961 (1960—7½ per cent).

#### British Electronics Industries Ltd.

The Government is frequently blamed for the low level of exports, on the grounds that all too often it has sought to cut back home demand, forgetting that export prices are to a large extent determined by the total capacity employed. Mr. Charles Orr Stanley, in his report as chairman of *British Electronics Industries Ltd.* for 1960/61, makes it clear that the creation of an excessive home demand is equally disastrous:

"Since the war, the Government has made more than twenty changes in purchase tax and credit restrictions. Let us look at the main dates:

#### 6. Pro-forma Consolidated Profit and Loss Account of Francis Sumner (Holdings) Limited and its Subsidiary Companies for the Six Months ended June 30, 1961.

	£	£	£	£
<b>Group Trading Profit after charging and crediting the items inset below</b>		105,099		102,572
<b>Investment Income</b>		4,526		15,202
		109,625		117,774
<b>Head Office &amp; Secretarial expenses</b>	21,357		18,823	
<b>Directors' Emoluments</b>	13,810		8,668	
<b>Depreciation &amp; Amortisation</b>	42,176		46,595	
<b>Depreciation of Television Receivers on Rental</b>	94,670		95,741	
	172,013		169,827	
<b>Deduct: Profit on sale of fixed assets</b>	1,276		—	
	£170,737		£169,827	
<b>Deduct: Taxation on above profit:</b>				
Income Tax	20,250		24,000	
Profits Tax	7,250		6,000	
	27,500		30,000	
<b>Group Profit after Taxation</b>	82,125		87,774	
<b>Deduct: Subsidiary Companies' Preference Dividends (net)</b>	7,461		7,163	
<b>Appropriation to Subsidiary Company's Capital Redemption Reserve Fund</b>	666		—	
	8,127		7,163	
	73,998		80,611	
<b>Balance of Undistributed Profits brought forward</b>	151,955		121,521	
<b>Deduct: Attributable to Subsidiary Companies sold</b>	767		61,295	
	151,188		60,226	
<b>Balance available for Distribution</b>	225,186		140,837	
<b>Deduct: Interim Dividend of 5 per cent (1960—7½ per cent), less tax</b>	38,703		58,054	
<b>Undistributed Profits carried forward</b>	£186,483		£82,783	

	Purchase Tax	Hire Purchase	Rental
		Deposit	Payment Period
Nov. 47	STOP		
Apr. 48	STOP		
June 48	GO		
Apr. 51	STOP		
Feb. 52		STOP	STOP
Apr. 53	GO		
Apr. 54		GO	GO
Feb. 55		STOP	STOP
July 55		STOP	
Oct. 55	STOP		
Feb. 56		STOP	STOP
Sep. 58		GO	GO
Oct. 58		GO	GO
Apr. 59	GO		
Apr. 60		STOP	STOP
Jan. 61			GO
July 61	STOP		

"STOP" indicates a change that depressed sales and "GO" a change that increased sales. This form of presentation should make the impossibility of production planning abundantly clear.

"Each one of these earlier changes created difficulties, but on each occasion we were able to overcome them. The present collapse stems from the action of the Government in the autumn of 1958, when suddenly the Government decided to support a policy of intense promotion of spending in the home market. All credit restrictions we had been working under for years were removed at a moment's notice, and far from having to look for credit, the banks and every other financial organisation were encouraged to lend people money. Down to the very last wage earner the community was encouraged to borrow money. People who had never before envisaged being able to buy such articles undertook the purchase of television and radio sets, and the manufacturers throughout the country, in order to keep their place in the industry, had to expand pro-

September 5, 1961

C. L. WALKER,  
Chairman

duction facilities to manufacture and distribute sets to meet this huge demand.

"It is perfectly clear that if all the employable labour... is used in meeting a sudden and stimulated demand on the home market, no production capacity remains on which to build up an export trade. This is exactly what happened....

"When the collapse came in 1960, we felt we would gradually get over this crisis.... But a considerable time is taken to slow down factories that have built up large productions.... Financially, manufacturers are strained to the limit and suddenly the weaker companies break. This happened in December of last year, and the stocks held by these companies had to be thrown on the market at what we would call distress prices, thus setting a race to ruin."

#### E. K. Cole Ltd.

Some indication of the magnitude of the group's troubles is given by the consolidated profit and loss account of E. K. Cole Ltd. and its subsidiaries, reproduced below. Though double-sided, this is unconventional in form in that each column consists of a mixture of additions and deductions, so that the totals represent the total loss (in 1960/61) or the total profit (in the preceding year).

#### Provision for Repairs and Renewals

An interesting point in the accounts of *Maynards Ltd.* for the year ended June 30, 1961, is the treatment of the provision for repairs and renewals and the taxation charge. Notes in the accounts

read as shown below. It will be seen that the provision is charged against profits before taxation, but is itself reduced by a charge which has been reduced by taxation. The tax charge is correspondingly inflated.

#### 3. THE PROVISION FOR UNITED KINGDOM TAXATION is made up as under:

	1960
Income Tax	
Schedule "A" and tax deducted from Dividends and Interest received .. .. .	11,438
Schedule "D" 1962/63 .. .. .	118,000
	<u>129,438</u>
Profits Tax .. .. .	44,500
Estimated taxation relief on expenditure charged to provisions .. .. .	2,000
	<u>£175,938</u>
	<u>£182,454</u>

#### 5. PROVISIONS FOR REPAIRS AND RENEWALS are arrived at after taking into account estimated taxation relief. The following are details of the movements during the year:

	Company's Balance Sheet	Consolidated Balance Sheet
	£	£
At June 30, 1960 .. .. .	21,198	23,737
Deduct: Expenditure during year, less estimated taxation relief thereon .. .. .	7,571	7,571
	<u>13,627</u>	<u>16,166</u>
Add: Transfer from Profit and Loss Account	7,500	7,500
	<u>£21,127</u>	<u>£23,666</u>

The total of the estimated taxation relief deducted from expenditure during the year is £2,000. The corresponding charge is included in the taxation provision (see Note 3).

### E. K. COLE LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1961

	Year ended 31st March, 1961 £	Year ended 31st March, 1960 £		Year ended 31st March, 1961 £	Year ended 31st March, 1960 £
TRADING LOSS .. .. .	377,316	930,339 (Profit)	NET DIVIDENDS PAID AND PROPOSED ON SHARE CAPITAL OF E. K. COLE LTD.:		
Depreciation .. .. .	123,813	149,980	On Preference Stocks:		
Auditors' Remuneration (E. K. Cole Limited £3,000—1960 £3,000) ..	4,784	3,912	5½ per cent Cumulative Preference Stock .. .. .	9,807	8,422
Directors' Emoluments .. .. .	30,421	44,265	Preferred Ordinary Stock .. .. .	9,193	11,300
	<u>159,018</u>	<u>198,157</u>		<u>19,000</u>	<u>19,722</u>
INTEREST ON UNSECURED LOAN STOCK ..	57,500	57,500	On Ordinary Stock:		
BANK INTEREST AND OTHER FINANCE CHARGES .. .. .	174,187	54,920	Proposed .. .. .	—	160,296
	<u>231,687</u>	<u>112,420</u>		<u>19,000</u>	<u>180,018</u>
INCOME FROM TRADE INVESTMENTS ..	102,592	55,269	TRANSFER TO RESERVE AGAINST OVERSEAS INVESTMENT ..	—	150,000
LOSS BEFORE TAXATION .. .. .	665,429	675,031 (Profit)	TRANSFER FROM REVENUE RESERVES .. .. .	375,181	80,410
TAXATION BASED THEREON:					(To Revenue Reserves)
United Kingdom:					
Income Tax—Recoverable .. .. .	227,621	290,271 (Payable)			
Profits Tax .. .. .	—	70,305			
	<u>227,621</u>	<u>360,576</u>			
LOSS AFTER TAXATION .. .. .	437,808	314,455 (Profit)			
EXCEPTIONAL ITEMS:					
Surplus taxation of previous years ..	—	50,000			
Adjustments relating to previous years less tax .. .. .	81,627	45,973			
	<u>81,627</u>	<u>95,973</u>			
TOTAL LOSS FOR THE YEAR .. .. .	<u>£356,181</u>	<u>(Profit) £410,428</u>		<u>£356,181</u>	<u>£410,428</u>

N.B. Figures in italics represent deductions.



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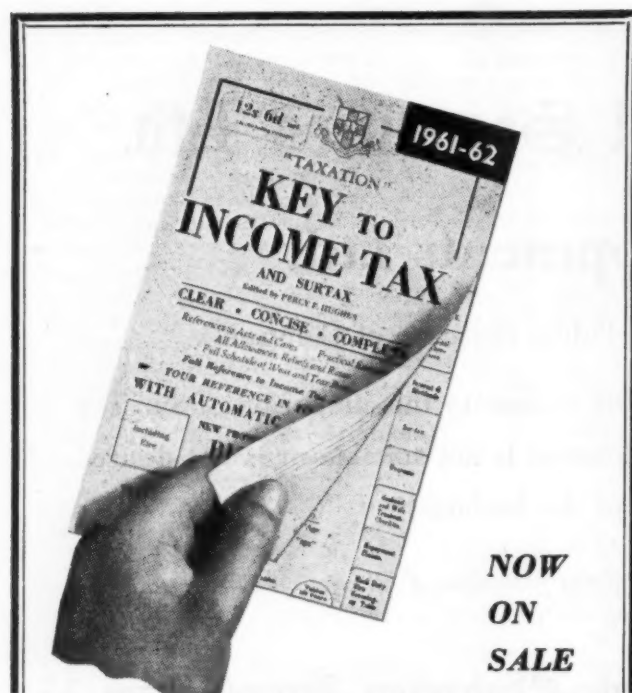
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## Legal Notes

### Contract and Tort—

#### Negligence in Giving Orders

Even though a person be not the servant of another, it may be that that other owes him a duty of care by reason of some relationship, and, having given him an order which is negligent and leads to his physical injury, will be liable for that injury.

In *Clayton v. Woodman & Son (Builders) Ltd. and Others* [1961] 3 W.L.R. 987, the plaintiff, a bricklayer in the employment of contractors at work on a house, was ordered by the architect to cut a chase in a gable end. The architect knew that the chase would be cut that day without any shoring or strutting, and he should have known, if he had exercised reasonable care and skill, that to cut it without such precautions was an extremely dangerous operation. The plaintiff cut the chase, the gable fell on him, and he was injured. He then sued, among others, the architect.

Salmon, J., accepted that the architect had no right to instruct the plaintiff on either the manner in which the work was to be done or the safety precautions to be taken, that there was no contractual bond between the architect and the builders, and that, if the architect were to stand by while the plaintiff did something which the architect knew to be highly dangerous without offering any warning or protest, he would not be liable for any ensuing disaster. He held, too, that if the architect had given his orders not to the plaintiff, an individual workman, but to the contractors who employed the plaintiff, then he would owe the plaintiff no duty of care, because their relationship would not be sufficiently close. But the architect chose to give the instructions direct to the plaintiff, who did not and could not have been expected to know the danger he was to run. Having regard to the exceptionally close relationship between the architect and the plaintiff, the Judge held that on the particular facts of the case the law imposed a duty on the architect to take reasonable care for the safety of the bricklayer. Whether or not there was such a duty would depend in each case on its particular facts. In the Judge's view, although to give an order was an

altogether stronger matter, if what the architect had said to the plaintiff had been no more than a representation he would still have infringed his duty of care. Accordingly the plaintiff recovered damages against the architect.

### Contract and Tort—

#### Duty of Employer when Work is Risky

The plaintiff in *Withers v. Perry Chain Co. Ltd.* [1961] 1 W.L.R. 1314 suffered from dermatitis. Her first attack occurred while she was employed by the defendants in the work of assembling parts of bicycles. It appeared that her skin was susceptible to certain elements in the grease which came on to her hands from the bicycle parts, and accordingly when she came back after recovering she asked to be given different work. She was given the task of assembling driving sleeves, which did not bring her into contact with grease and was thought by her employers to be the driest work in the factory she was capable of doing. Nevertheless the parts she assembled in this new work had been dipped in lubricating suds containing a proportion of oil. They were then dried by hot air, and when cooled were ready for her attention. While engaged on this second task of assembly she suffered two more attacks of dermatitis, after the second of which she asked for and was given a third and different task, this time in the packing department. After two years in the packing department she again had an attack of dermatitis. On these facts the plaintiff claimed that the defendants were negligent because, knowing that she was suffering and had suffered from dermatitis, they employed her on work—that is, assembling driving sleeves—which involved contact with lubricating suds which they knew or ought to have known were irritant and might exacerbate or cause dermatitis.

The judge of first instance held that the defendants were negligent at common law in permitting the plaintiff to continue doing this work, but the Court of Appeal could not support this decision. It could not be said that an employer was bound to dismiss an employee rather than to allow her to run a small risk. What work an employee was

willing to take was for the employee to decide, and it was not for the employer to refuse it because he thought that the work was not in the employee's best interests.

### Executors Law and Trusts—

#### Seeking Wider Investment Powers than Now Allowed by Law

In *re Cooper's Settlement* [1961] 3 W.L.R. 1029 was a case where a scheme to vary a trust settlement came before the Court for approval under the Variation of Trusts Act, 1958. One of the powers the trustees sought was the power to invest the whole of the trust funds, if they thought fit, in industrial ordinary shares. Until the Trustee Investments Act, 1961, became law the Court had often exercised its powers under the Variation of Trusts Act, 1958, to give trustees a very wide range of investment powers. But the Trustee Investments Act, 1961, put a new complexion on matters, as it widened the class of investments authorised by law, and gave trustees generally the power to invest a certain proportion, but no more, of trust funds in the additions to the class so authorised. The Act also provided that this general enlargement of investment powers should not lessen any power of a Court to confer wider powers of investment on trustees, or affect the extent to which any such power is to be exercised.

Nevertheless the view taken by Buckley, J., was not favourable to the applicants in this case. He held that in enacting the Trustee Investments Act, 1961, Parliament was indicating its opinion on the extent to which in ordinary cases it should be open to trustees to invest otherwise than in gilt-edged investments. The jurisdiction of the Court to go beyond what Parliament enacted in 1961 still remained, but it was a discretionary jurisdiction, and so the way in which the Court would use its discretion had been to a large extent affected by the subsequent decision of Parliament. Henceforth, whenever applicants under the Variation of Trusts Act, 1961, asked for an increase of trustees' powers of investment over what was authorised by law, the Court would have to be satisfied that there were special grounds which made it proper that trustees should have wider powers of investment than the legislature had indicated in the Trustee Investments Act, 1961, as normally appropriate. The Judge considered what were alleged as special grounds in this case, and found them inadequate, with the result that he refused the application.



## An Accountant's Guide to Recent Law

### ACTS OF PARLIAMENT

Housing Act, 1961. Making further arrangements for financial assistance in provision of housing accommodation.

### STATUTORY INSTRUMENTS

No. 1966. Companies (Forms) (Amendment No. 2) Order. Prescribing forms for use in relation to charges created by companies registered in Scotland.

No. 1974. Companies (Fees) (Scotland) Regulations. Providing for fees payable for registration of floating charges and for inspection of register.

No. 2030. Distribution of German Enemy Property (No. 4) Order. Enabling payments to be made to victims and balance to the Exchequer.

No. 2054. Registration of Title (Huddersfield) Order. Registration to be compulsory on sales from April 2, 1962.

No. 2064. Exchange of Securities (No. 3) Rules. Procedure for exchanging 3 per cent Defence Bonds (Conversion Issue) for 5 per cent Bonds.

No. 2131. Exchange of Securities (No. 4) Rules. Procedure for exchanging 3 per cent Defence Bonds for 5 per cent Bonds.

No. 2147 (C.19). Small Estates (Representation) Act (Commencement) Order. Bringing Act into operation on January 1, 1962.

No. 2149. Treasury (Loans to persons other than local authorities) (Interest) (No. 4) Minute. Reducing rates of interest.

### DECISIONS OF THE COURTS

#### Administration of Estates

"Testamentary expenses" in the absence of some supporting context could not extend to duties in respect of foreign property specifically devised.

*In re Matthews' Will Trusts* (1 W.L.R. 1415).

#### Charity

Trust for "hospital and/or hospitals and/or charitable institutions" was not a valid charitable trust, and therefore failed for uncertainty.

*In re Smith deceased* (1 W.L.R. 1387).

#### Company

Order not made for winding up of company on "just and equitable grounds" since material matters not in petition or given in evidence.

*In re Davis Investments (East Ham) Ltd.* (1 W.L.R. 1396).

#### Conflict

Settlement governed by English law. Power of withdrawal by settlor. Incapacity by law of domicile. Whether penal.

*In re Langley's Settlement Trustees* (3 W.L.R. 1169).

#### Contract

Depreciation clause in hire purchase agreement in which the charge was progressively

reduced after sixth month held in the circumstances not to be a penalty clause.

*Phonographic Equipment (1958) Ltd. v. Muslu* (1 W.L.R. 1379).

#### Husband and Wife

Apportionment of financial interest in a joint business on break up of the marriage.

*Landsman v. Landsman* (105 S.J. 988).

Between decree nisi and making of it absolute husband and wife executed deed of covenant for maintenance to wife, etc. Held not a post-nuptial settlement capable of variation under Matrimonial Causes Act, 1950—reversing court of first instance.

*Young v. Young (No. 1)* (3 W.L.R. 1109).

#### Local Government

Relief not granted from surcharge by district auditor on council members.

*Annisson v. District Auditor for St. Pancras Borough Council* (1 W.L.R. 1148).

#### Purchase Tax

Regulation 12 of Purchase Tax Regulations, 1945, held *ultra vires* as it attempted to oust jurisdiction of the courts.

*Commissioners of Customs and Excise v. Cure and Deeley Ltd.* (3 All E.R. 641).

#### Rates

Part of building used by bus company for reconditioning of parts of vehicles. Held industrial hereditament.

*East Yorks. Motor Services Ltd. v. Clayton* (3 All E.R. 758).

#### Road Traffic

Motor cyclist injured as result of football kicked on to highway. Failure to wear crash helmet was not at time of accident contributory negligence.

*Hilder v. Associated Portland Cement Manufacturers Ltd.* (3 All E.R. 709).

#### Trust

The fact that trustees held large part of trust funds in shares in investment trust company was not a special circumstance for widening of investment powers under Trustee Investments Act, 1958.

*In re Cooper's Settlement* (3 W.L.R. 1029). See page 767.

### ARTICLES

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#### ABBREVIATIONS USED

All E.R.—The All England Law Reports.

S.J.—Solicitors' Journal.

W.L.R.—The Weekly Law Reports.

Note: Taxation cases and articles excluded.

## Accountancy

### BINDING OF VOLUME 72

The index to Volume 72 (January–December, 1961) will be enclosed with the January issue of ACCOUNTANCY.

Our printers, Simson Shand Ltd., will bind subscribers' copies in a grey binding case with white lettering at a charge of £1 10s. 0d. Orders should be sent direct to Simson Shand Ltd., 12/14 Parliament Square, Hertford, Herts., accompanied by the appropriate remittance, the monthly parts and the index. If the monthly parts are posted separately from the order and remittance, a note of the name and address of the sender should be enclosed.

Missing parts may be obtained from ACCOUNTANCY, The Institute of Chartered Accountants in England and Wales, Moorgate Place, London, E.C.2 (3s. per copy, post free), and should be included in the parcel sent to the binders. As the cases are of a standard size, complete sets only can be bound.

Readers who wish to make their own arrangements for permanent binding can obtain a case for this purpose from Simson Shand Ltd. at the price of 10s. 9d. post free. Cases are available for earlier years, and orders for cases or for binding can be accepted for any year at the same charges.

A temporary binder to hold up to twelve issues—which can be quickly inserted and removed—is obtainable from the offices of ACCOUNTANCY at 43 London Wall, London, E.C.2, price 12s. 6d. (by post 13s.).

## Letters to the Editor

### Insurance Agents' Commissions

Sir,—Some readers may be aware of an article in *The Guardian* of November 21 in which reference was made to the practice of insurance companies offering attractive commission rates to people of all walks of life for the introduction of insurance business.

As a practising member of the Institute I have been canvassed by many insurance companies to accept an agency, my attention being drawn particularly to the lucrative commissions which are paid on life business. For several years I have been waging my own private war against the present system, which I believe unnecessarily increases the already onerous responsibilities which professional advisers have towards their clients. I am strongly of the opinion that solicitors, accountants and the like should be rewarded by their clients for services rendered in their own professional field, and that they should not seek to increase their earnings by picking the plums from the orchard which I feel belongs to experienced insurance brokers.

There is no doubt whatsoever in my mind that a large part of the blame rests upon the insurance companies themselves, which apparently treat as equal people who have made a career of insurance and others who are merely contact men and whose knowledge of the insurance market as a whole is, at the best, very limited.

It would be a pity if, yet again, it was left to the established professional bodies to endeavour to eliminate this dubious practice by debarring their members from participating in it. Such a course would, I feel, delay still further the day when insurance will be recognised as the profession which it should be rather than the trade which, under the present system, I fear that it is.

Yours faithfully,

A. J. BURDEN, A.C.A.

Manchester.

### Apportionment Act

Sir,—I must apologise for my delay in following up your contributor's note to my query which was printed on page 632 of the October issue of *ACCOUNTANCY*.

Your contributor seeks to justify his statement that "The Apportionment Act does not apply to income tax" primarily upon a dictum of 1931 in the case of *C.I.R. v. Henderson's Executors*, in which the court rejected a claim for repayment by executors based partly on dividends received after the death of the deceased but apportionable in part to the period before that date. I would think that the dictum had to be construed in the light of the particular facts of the case. *Wood v. Owen* appears to be similar, although *Stewart's Executors* deals with a

rather different question. I suggest that there is nothing new about these authorities, but that they are not sufficiently wide in scope to justify the downright and all-embracing statement quoted above.

As regards the final sentence of your contributor's reply, may I cite the obvious case of the life tenant of a deceased's estate where the death occurred between 1931 (the time of the *Henderson* decision) and 1938 (when the provisions which are now in Sections 418 *et seq.* of the Income Tax Act, 1952,

were first enacted)? In that instance it is quite clear that, unless the will had specifically excluded the application of the Apportionment Act, the life tenant was entitled only to that proportion of a dividend received after death which had accrued after death, and that was the limit of his income from that source for tax purposes. It follows that in this type of case the operation of the Apportionment Act was fully effective for tax purposes. Since 1938, of course, the legislation on the subject has had the effect of confirming the same situation.

Yours faithfully,

J. D. WELLS, F.C.A.

London, E.C.2.

[This point will be considered in an article in a forthcoming issue.—Editor, *ACCOUNTANCY*.]

## Readers' Points and Queries

### Industrial Buildings Allowance

*Reader's Query.*—Are you able to refer me to any decision whereby a motor repair garage is excluded from the definition "trade carried on in a mill, factory or other similar premises" in Section 271, Income Tax Act, 1952, and do you consider that there are grounds for contesting the Inspector's refusal of the allowance?

*Reply.*—If the motor repair garage is ancillary to a petrol station and retail car trade, it is not regarded as an industrial building. In other circumstances, whether or not it is to be dealt with as a factory or similar premises appears to be a question of fact. Reference should be made to Section 271 (5) of the Income Tax Act, 1952, for the definition of "retail shop" as including premises of a similar character where retail trade or business (including repair work) is carried on.

### British Subject in Employment Abroad

*Reader's Query.*—My query concerns the place of residence for tax purposes of a British subject who is a salaried employee of the Somali Government. His first departure from the U.K. was in September, 1955, and since then he has resided continuously in the Somali Republic, except for leave spent in U.K. as follows: June 27 to October 1, 1957; June 23 to September 20, 1959; July 28

to November 23, 1961. Before 1959 he maintained no place of residence in the U.K. A house was purchased here in July, 1960, and was lived in during the 1961 leave. It is now occupied by his wife, but will be let on a long lease in 1962.

The employee is a beneficiary, being the sole liferenter, from his mother's estate, which holds as an investment residential property in England. He has recently learned that the Revenue has assessed the estate in respect of six years' excess rents, and this query concerns mainly these assessments under Case VI and Schedule A. He has also some dividends from U.K. sources, and there is now Schedule A to consider in respect of the house purchased in 1960.

He is considering a repayment claim in respect of tax deducted in U.K. Will he be treated for this purpose as not resident and not ordinarily resident, and will he be able to reclaim any of the Schedule A and Case VI tax?

*Reply.*—A British subject can claim relief in the United Kingdom under Section 227 of the Income Tax Act, 1952. The repayment, however, is limited by reference to the proportion of the allowances that the U.K. income bears to the world income. The claim forms will be obtained from The Chief Inspector of Taxes, Foreign Claims Division, Seaford House, Waterloo Road, Seaford, Liverpool, 21.



## Publications

**Uniform Cost Accounting.** By Kenneth S. Most. Pp. 255. (Gee: 30s.)

THIS IS AN excellent book. While the title may suggest the study of those uniform costing systems which have been applied in particular industries, the approach is in fact much broader. The author considers the application of uniform costing principles on a universal basis rather than in the present restricted sense, and in doing so draws on the best international experience and sources of information. The book is of a high standard and provides, in addition, a valuable study of the social and economic aspects of accountancy. It contains much thought provoking matter and provides an excellent background to the many factors which influence cost and cost comparison. It breaks new ground in this country and, as the principles advanced could have an influence on the development of accountancy, the book warrants careful study.

The author takes the view that the fortunes of uniform cost accounting have not been high, and sets out to consider the underlying difficulties and the reasons by which these may be overcome. While a full chapter is given to the nature, history and objects of uniform costing, a considerable part of the book is related to the underlying accountancy principles, and the classification and coding of accounts receives particular emphasis. The conclusion arrived at is that standardisation can only be achieved by means of a rational classification of accounts and the adoption of a universal coding system.

Matters of particular interest include the explanation of the decimal coding system and the descriptions of the German, French and Australian methods of uniform accounting, which are fully illustrated with detailed charts of accounts. A considerable part of the book is devoted to the International Chart of Accounts (*Le Plan Comptable International*) published in 1958, the eventual acceptance of which the author considers both inevitable and desirable. In addition to the description of the basic code, detailed examples are given to show how it will work in practice and, in particular, how costs may be classified by both type and function within this general framework.

Dealing with the difficulties of com-

parison caused by the variety of products and processes which may occur within a single business, the author points to the benefits of a fundamental classification such as is contained in *Le Plan Comptable International*, which segregates industries in accordance with their professional functions. This is followed in the last chapter by a useful section on the different kinds of comparison which may be made and on the numerous ratios which may be used in this connection.

This book is a valuable addition to our accounting literature and should be studied by every accountant, if only to obtain a clear grasp of the International Chart of Accounts, which may assume greater prominence with the developments which are now taking place in the field of economic union.

C.I.B.

**Programming Computers for Business Applications.** By Ned Chapin. Pp. vii+279. (McGraw-Hill: 58s.)

THIS BOOK HAS been written to provide an introduction to computer programming and business data processing. It does not in any way claim to be a "do it yourself" book, but is a useful reference work. One special attraction is the avoidance of mathematics or confusing mathematical symbols; the most involved mathematical reasoning used is "... because 10 divided by 2 is five." Thus, although the reader may sometimes feel bewildered at the logic of some of the descriptive passages, he cannot claim confusion by numbers and unfamiliar symbols; and he is kept pleasantly unaware of such complexities as hexadecimal and bi-quinary numbers.

When computers were first developed, programming involved writing down many strange symbols to control the computer. Nowadays programming techniques have developed to such an extent that it is possible to use the computer itself to assist in the preparation of its own programmes. The author describes several methods of using the two basic techniques of symbolic assembly and compiler programmes. Of particular and timely interest are the author's examples using the IBM 1401 symbolic programming system and COBOL—"Common Business Orientated Language."

In fact a major purpose of the book is to illustrate the use of COBOL, which is now being adopted by all the leading computer manufacturers to provide a universal standard programming system. In view of this, it is disappointing that

the reader is left largely uninformed about the basis of the COBOL system, with only a few COBOL programming terms discussed briefly in a short appendix.

The key to the whole book lies in the realistic examples and the way they are discussed. They are phrased as much as possible to depict real life situations. The only drawback is that the multiplicity of computers involved in the solutions could lead to confusion. The reader has, for example, to adjust to treating one example with an IBM commercial translator and the next by coding in machine language an LGP 30 binary computer. This comment is made, even admitting that the different computers have to be used to illustrate optimising and buffering difficulties in programming.

The opening chapters on the role of the programmer are helpful, and should prove of interest to any prospective programmer or manager new to the responsibility of running a programming team. Whether prospective programmers will react favourably to reading that they may be called on to work sixteen hours a day remains to be seen.

The chapters on points to look for when programming to get the very best out of a computer, and the need to consider timing and memory limitations, provide a useful check list for the trainee.

The author introduces several interesting concepts, such as the distinction between translation and development programming. Translation means coding direct from a flow chart, whereas development programming implies more creative coding and flow charting.

The glossary of some 200 common computer terms should prove of value to the new programmer, although he may sometimes have to call someone to explain further the meanings given. For example: "Binary—pertaining to the concept two."

In conclusion, this is a well-laid-out book, containing numerous easy-to-read flow charts. The conscientious student will find the many difficult problems at the end of each chapter interesting and useful exercises in programming.

J.G.

**Accountancy.** By K. S. Carmichael. Pp. 72. (*Sunday Times Career Books*: 3s. 6d.)

AS IS THE case with other *Sunday Times* career books, *Accountancy* is written to show what really goes on day by day, and what it is like working, in the profession. It is intended for the young man



(or woman) about to leave school, who is considering the merits of the various careers open to him. But it is equally appropriate to parents and teachers who would like to know a little more about the sort of life an accountant—and more particularly an articled clerk—leads.

As Mr. Carmichael so rightly observes: "Accountancy does not pretend to be a burning vocation, inspired in infancy. Few nursery walls have overheard the lisping confidence: 'I want to be an accountant . . .'" The image of the profession is not easy to put over to the man in the street. Television, which has brought the peculiar magic of hospital life and the life of the family solicitor into our homes, could probably never quite catch the attraction of accountancy. Mr. Carmichael's very readable introduction to the profession comes close to doing so.

G.A.H.

**Radical Reaction: Essays in Competition and Affluence.** Introduced and edited by Ralph Harris. Pp. 306. (*Hutchinson for the Institute of Economic Affairs: £1 5s.*)

"THIS BLISTERING BUT humane essay" is the description aptly applied by Ralph Harris to one of the six Hobart Papers here presented—that in which Norman Macrae exposes all the absurdities, injustices and social evils of the "blight caused by rent control." Equally forthright opinions are expressed by all the authors.

In the introductory paper, under the title "All Capitalists Now", Graham Hutton shows that the basic economic problems of costs, capital and markets are the same in all societies, whether nominally capitalist or communist—but he concludes that efficiency and satisfaction are more easily attained by free enterprise and competition.

Resale price maintenance is condemned by Professor B. S. Yamey, and Arthur Seldon is scathing about so-called national insurance pensions, particularly the graduated scheme. Anthony Vice contributes a reasoned discussion of takeover bids. He shows that many of the criticisms consist of "blaming bidders for faults that are not theirs", and sets out desirable reforms, including fuller disclosure—but "we must avoid weakening the lively corrective force [takeovers] apply to the stiff joints of the economy."

The last paper in the volume—"Anything but Action?"—is Sir Alan Herbert's verdict on the proliferation of Royal Commissions and committees of inquiry.

As Ralph Harris points out in his preface, a period of rising incomes has succeeded one in which "fears of widespread poverty and unemployment had put a premium on caution, security and restriction." The Hobart Papers, attempting to stimulate new thought on the needs of a new era, resort to pamphleteering with all the vigour of controversy.

A.H.P.

**The Antitrust Laws of the United States of America.** By A. D. Neale. Pp. xvi + 516. (*Cambridge University Press: 45s.*)

THE UNITED STATES has not only the most comprehensive and stringent antitrust policy in the world, but also the longest experience of enforcement. In contrast, this country is a tyro in the field. Given the probability that the present legislation is still open to change, there is much to be said for trying to learn from not only our own successes and failures but also those of the United States.

Mr. Neale's book is in two parts. In the first four-fifths of the book he takes the reader through the legislation and case law. The last hundred pages or so are devoted to assessing antitrust policy in relation to its objectives, and to exploring the lessons to be learned by other countries with different objectives.

The bones of the antitrust laws are the substantive provisions contained in seven sections from three statutes. But the meat is the body of case law which illustrates the judicial interpretation and development of the legislation. Mr. Neale's method of exposition is to illustrate each section by a series of cases, graded from those which obviously fall within its provisions to those which indicate where the borderlines are located. At the same time he brings out the two main principles of judicial interpretation, the *per se* rules and the Rule of Reason. Chapters are devoted to special aspects, including patents, international cartels and resale price maintenance, and to administration and remedies. The exposition provides not only insight into what antitrust means in practice, but also an appreciation of the difficulties which any similar policy would encounter.

In assessing American antitrust legislation it is important to disentangle its objectives. The most important comes from political philosophy and is concerned with the dangers of unchecked power. Another is the desire to foster and protect small business. Concern with economic efficiency is a long way down the list. Moreover, Americans

have a preference for control by legal process rather than by administrative regulation. All this goes a long way to explaining how the laws operate—for example, the development of *per se* rules and the reluctance of the courts to concern themselves with assessing the effects of the practices on economic welfare. Mr. Neale concludes that, in the light of its objectives, antitrust legislation has on the whole succeeded, though he finds much to criticise in the Clayton Act, particularly the Robinson-Patman Act amendment.

In this country, the motives behind anti-monopoly policy derive less from political philosophy and more from concern with economic efficiency. Mr. Neale has no high opinion of economics as a discipline. "The administrator who turns to economics for guidance on the monopoly problem . . . is likely to know frustration." Now many economists would agree that much economics can be criticised on methodological grounds and that there is "need for more empiric study." But the criticisms which Mr. Neale develops are for the most part naive and betray a lack of appreciation of scientific method. He does not seem to realise that abstraction is necessary to cut through the tangle of reality to get at significant generalisations, and logical rigour to deduce implications so that the generalisations can be tested empirically. It would be a pity if administrators rejected economics as a guide to policy on the basis of Mr. Neale's strictures. It would be an even greater pity if they accepted his "empirical grounds" for policy, since these, on examination, turn out to be a theory so fuzzy and casual as to be incapable of being tested against the facts.

Another reason for dissatisfaction with Mr. Neale's concluding section is that he does not supply a clear analysis of objectives of anti-monopoly policy. His fundamental concept of "mobility of resources to employments of maximum utility" for analysing the conditions of economic efficiency begs important questions which have long perplexed welfare economists. Lack of adequate consideration of objectives betrays itself in his treatment of oligopoly. He seems satisfied with the performance of most oligopolies because, even if they do not compete strenuously in price, they compete in other ways. But are all forms of competition equally valuable? For example, does the consumer really benefit much from the competitive advertising of detergents, petrol and cigarettes?

J.R.G.

**A Guide to Photocopying in the Office.** Pp. 44. (*The Institute of Office Management*: 10s.)

THIS BOOKLET IS the report of a Study Group organised by The Institute of Office Management with the object of providing some guidance to office managers and other potential users in the use of photocopying techniques and the equipment at present available.

It deals briefly with a subject about which comparatively little has been written, but its forty-four pages should provide a valuable introduction to anyone considering the use of this type of equipment for the first time.

Descriptions of the various processes used and the types of equipment available are given in clear non-technical language, and the main technical terms are simply explained. The factors governing the suitability of these processes and equipment to any particular copying operation are enumerated and considered. Various office routines which might lend themselves to photocopying techniques are examined, and the booklet concludes with a Glossary of Terms and a Table of Suppliers.

A potential user of photocopying equipment should find the reading of this booklet amply rewarding, and any office manager not yet using or considering such equipment might well be advised to gain an introduction to these modern office aids by a perusal of this report.

P.L.G.

**Health Through Choice.** An economic study of the British National Health Service. By D. S. Lees. Hobart Paper 14. Pp. 64. (*Institute of Economic Affairs*: 7s. 6d.)

THERE HAS BEEN NO lack of general discussion of the problems of the National Health Service. A succession of inquiries has taken place into its cost, the adequacy of services, the supply of doctors and dentists, their remuneration, drug prices, and so on. But so far, the author suggests, the service has "largely escaped economic analysis."

At first sight, the cost of the health service has risen at an alarming rate: the actual cost for 1949/50 was 70 per cent up on the estimates for 1948/49, and that for 1960/61 was double that of ten years earlier. Yet, Mr. Lees shows, the percentage increase in real cost was only about two-thirds as much as in education and less than half as much as in the national insurance schemes. Health expenditure fell as a proportion of total social service expenditure from 28 per

cent in 1949/50 to 23 per cent in 1959/60, and in terms of the national product it declined from 4.0 per cent to 3.9 per cent.

On capital account, the service has fared very poorly. Pre-war expenditure for capital purposes amounted to about one-fifth of current health expenditure; since the war it has amounted to only 5 per cent. In a typical post-war year, it is estimated that the rate of capital expenditure was less than half that needed to maintain the existing stock of 500,000 beds; and even if expenditure rises to an annual rate of £50 million by 1965, as has been proposed, this will in real terms suffice only to restore the pre-war level of expenditure per head.

But a mere demonstration that the service needs more funds rather than less is not sufficient to show that, of the various ways in which medical care may be organised and financed, we in Britain have the right one. "The fundamental issue," the author states, "is whether the supply of medical care should be based on the principle of consumers' sovereignty or made the subject of collective provision. This is not something that can be decided on technical grounds; the issue lies beyond economics and derives ultimately from one's beliefs of what constitutes the good society."

Far from agreeing with the Guillebaud Committee that "the structure of the National Health Service . . . was framed on broadly sound lines" and that "it would be altogether premature at the present time to propose any fundamental change," Mr. Lees writes: "My verdict would be that a monolithic structure financed by taxation is ill-suited to a service in which the personal element is so strong, in which rapid advances in knowledge require flexibility and freedom to experiment, and for which consumer demand can be expected to increase with growing prosperity." His main recommendations are that we should aim to diminish the role of political decisions and to enlarge the influence of consumer choice; that the control of hospital services should be decentralised by transferring ownership from the central government to local authorities and private institutions; that professional incomes should be determined by markets, not ministers; and that the pricing system should be re-introduced in the drug market by requiring patients to pay a percentage of the cost of each prescription, with special provision for costly life-saving drugs and for patients with low incomes.

To those who object that the clock is being put back, Mr. Lees replies "that it is desirable to put the clock back if it

is telling the wrong time." The case is stated convincingly. Many will agree that reform is essential; but, in Mr. Lees' own words, "reform to be good must be gradual."

A.E.

**Automatic Data Processing.** By Derek Wragge Morley. Pp. iv+76. (*H.M. Stationery Office*: 6s.)

MR. WRAGGE MORLEY, who is consultant on scientific matters to *The Financial Times*, reviews the growth of the automatic data processing industry in the United Kingdom, at the same time describing the principles of the various types of computer, and their application and operation. He also provides useful details of the work actually being done with computers by leading industrial and commercial concerns, and notes on further applications already projected. Appendices 1 and 2 supply, respectively, a summary of the automatic data processing systems available in the United Kingdom, with their cost and characteristics, and notes on computer time-hire facilities.

As an up-to-date introduction to computers, this is excellent.

G.A.H.

## Books Received

**Some Recent Estimates of The Elasticity of Demand for British Exports.** By S. F. Kaliski. A Note on Leontief Models with Non-Homogeneous Production Functions. By A. Ghosh. **Some Factors Influencing Share Prices.** By G. R. Fisher. Reprint Series Nos. 173-5. (*University of Cambridge, Department of Applied Economics*.)

**Return of Outstanding Debt** (England and Wales) as at 31st March, 1961. Pp. 109. (*Institute of Municipal Treasurers and Accountants*: 12s. 6d.)

**Working with Groups.** By Josephine Klein. Pp. 240. (*Hutchinson*: 35s.)

**IWS Supervisor's Handbook and Diary, 1962.** (*Industrial Welfare Society*, 48 Bryanston Square, W.1: 5s.)

**Green's Death Duties.** Fourth (cumulative) Supplement to fourth edition. By D. J. Lawday and E. J. Mann. (*Butterworth*: 12s. 6d.)

**Playing with Infinity, Mathematics for Everyman.** By Professor Rózsa Péter, Eötvös Loránd University, Budapest. Translated by Dr. Z. P. Dienes. Pp. xvii+268. (*Bell*: 25s.)

**Beef on the Arable Farm.** By P. G. James and R. J. Gayton. Pp. 56. (*Farm Economics Branch, School of Agriculture, Cambridge University*: 4s. post free.)



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# The Student's Columns

## THE PLANNING OF PROFIT

AFTER SEVERAL YEARS of steadily increasing turnover and profits, hardly a day now passes without our reading of "the difficult year" through which the company has passed, of the "erosion of profit margins", or of disappointing falls in income. This should not surprise us. Many factors contribute towards a natural tendency for profits to fall. Except in an expanding market, any strengthening of competition, whether at home or abroad, tends to force down selling prices, and hence profit margins, as well as to reduce the demands upon individual suppliers and so cut their sales volume. Recent years have seen a surprising growth of industries in the under-developed countries. To the competition for traditional markets brought by these industries must be added that which arises from the removal of tariff barriers. Even such things as the natural increase in the salary bill of an undertaking, arising from the payment of scale salaries to a staff which gets progressively older, quietly but remorselessly cut into profit-margins.

What, it may be asked, has all this to do with the accountant? His duty, it may be argued, is simply to record and measure profits—not to make them. But this is unrealistic. The accountant who thinks along these lines does not deserve to reach the top flight of his profession; indeed, he never will. The prime aim of industry today is the making of profit. Activities not having this result are, quite rightly, pruned. It is the accountant's duty, therefore, not merely to record profits but to assist in their maximisation.

Profit depends upon having something to sell of a type, and at a price, at which there is a demand sufficient for the margin to more than cover establishment costs. There are thus three problems deserving consideration: sales, the cost of sales and establishment expenditure—though the undue prominence given to cost control leads many accountants to forget their responsibilities in regard to selling activities.

This is not to suggest that accountants are not called upon to forecast sales and selling costs—useful but difficult exercises—but that they should have other interests in the financial problems of selling. There is a constant need for management to consider its markets, since prices frequently vary in different areas, and there will certainly be great differences in selling and distribution costs. Advertising and promotional policy

generally ought therefore to be based, partly at least, upon the advice of, and data presented by, the accountant. Market research will be necessary if management is to be aware of the activities of its competitors and of trends in consumer taste, but the accountant should be in a position to advise upon the financial implications. Normally, of course, it is not the duty of an accountant in industry to suggest changes in sales policy if they do not concern accounting. However, once he has ceased to be merely a bookkeeper and the idea of "controllanship" is accepted, the accountant becomes in the fullest sense the financial adviser of the Board: not merely presenting facts but proposing definite policies. Such a man will be able not merely to study what the company's competitors are doing but to ask what is being done about it.

Profits today are often made by subtle differences in styling and not only by cost efficiency. Markets are lost or gained as the result of bad or good design. It may be that we are at a stage where design, rather than selling price, is the key factor in creating demand. Yet design and research costs must be controlled if current profitability is to be ensured.

A great deal has been heard in recent years of the need of concerns to diversify—that is, to spread their interests so that not all their eggs are in one basket. At the same time, much has been made of the advantages of standardisation and simplification, and of the need to reduce variety. Conflicting though these policies may appear, each has its merits. Both may even be appropriate in the same undertaking. But, as with other matters of high policy, it is necessary to have the facts. Here again the accountant comes into his own.

The control of the cost of sales and of establishment expenditure is frequently termed cost control. Tens of thousands of pages have been written within the past ten years on the use of standard costs and budgetary control as an aid to cost control. Largely, however, these are accounting routines. The really useful accountant will go much deeper and take positive action, not just to peg costs at their existing level but to reduce them. A main difference between British and American management is the emphasis placed by the latter upon the need to cut unit costs. A recent report upon *American Cost Accounting and Financial Control*, quoted on page 724 of this issue, suggested that American management

believes "that unit costs must be reduced each day and every day, week in and week out, year in and year out." Active cost reduction programmes of this sort are found all too rarely in British industry. Yet, if Britain is to survive the wave of competition which will undoubtedly hit us if we join the Common Market, antiquated ideas must be overcome. Every worker must become cost conscious—and this can be assured only by education by tactful accountants skilled in the communication of accounting ideas. It may be necessary to adopt double-shift, and even round-the-clock, working to ensure adequate savings within a reasonable risk period upon the introduction of new machinery. Again, the accountant has a vital task: that of proving the economics of the change, and possibly even suggesting it.

"Cost reduction" must be built into the system. Designers must be made aware of the cost of excessive variety. All must know the cost implications of their activities. In fact, the consideration of cost consequences must become second nature, so that they are never forgotten.

Two main headaches of the accountant taking an active interest in cost reduction are fixed costs and administration costs. Once the burden of a fixed cost has been accepted, its continued acceptance is easy, and its removal difficult—sometimes almost, if not quite,

impossible. The setting up of a new administrative department may or may not be necessary, but once the staff have been appointed, a building constructed or rented, furniture installed and systems devised, it is terribly difficult to change things. The time to consider fixed costs is therefore before they are incurred. This does not mean that they should not be reconsidered from time to time: regular reviewing of every aspect of the undertaking is most desirable.

The second main headache is administration costs. It is easy to see the faults of other departments and be blind to those nearer home; yet, as Parkinson has shown, paper-work multiplies. Information required once for a special purpose is collected for ever after in case "it might be needed." Too often little thought is given to the design or use of forms. Here again accountants are helping industry. No one is better trained to undertake work study and method study in regard to clerical tasks.

It is sometimes suggested that an accountant's job is an uninteresting one; but if it is taken to its limits its ramifications are enormous. It is also suggested that accountancy is routine administration, which creates nothing. Little is further from the truth. When profit margins are being squeezed day by day, only the accountant can rectify the situation. To an amazing extent the success or failure of the undertaking depends upon his skill.

## PARTNERSHIPS AND INCOME TAX

THE PARTNERSHIP ACT, 1890, defines partnership as the relation which subsists between persons carrying on a business in common with a view of profit. Whether or not persons are partners of each other is important from the tax point of view, because (a) the admission and resignation of partners may give substantial tax relief, (b) the Revenue can recover the tax owing by one partner from another (see *Stevens v. Britten* [1954] 3 A.E.R. 385), and (c) the joint tax liability of husband and wife will usually be reduced by their trading in partnership. The question is one of mixed law and fact. Before admitting that persons are trading in partnership the Revenue requires the following information:

- (i) Where appropriate, that the partnership has been registered under the Registration of Business Names Act and with the trade or professional organisation—for example, the Stock Exchange, The Institute of Chartered Accountants in England and Wales, the Milk Marketing Board;
- (ii) the name(s) in which the bank account is opened and who signs;

- (iii) the names appearing on business stationery;
- (iv) the person who has power to close down the business;
- (v) the division of the business assets on dissolution;
- (vi) the persons who are liable for the debts of the business; and
- (vii) the deed of partnership, if any, showing the division of profits, contributions of capital and the rights and duties of partners.

When it is established that two or more persons are in partnership, the assessable profits of the firm are divisible between the partners in accordance with the agreement between them. The division is made *on the basis in which they agreed to share profits in the year of assessment*. In working problems of partnership, first ascertain the adjusted profit of the accounting period; secondly, relate that profit to a year of assessment; and thirdly, compute the capital allowances for that year of assessment. Having ascertained the profit and capital allowances for a year of assessment, forget how you arrived at those figures; just divide them between the partners in their profit-sharing ratio for that year of assessment.



Angus McIntosh and Jock Campbell are in partnership. They make up their accounts annually to September 30. The profit and loss account for the year ended September 30, 1959, was:

	£	£		£
Administrative Expenses ..		8,210	Gross trading profit	16,310
Selling expenses		4,200		
Partners' salaries:				
McIntosh ..	1,000			
Campbell ..	800			
	<u>        </u>	1,800		
Balance:				
McIntosh,				
two-thirds	1,400			
Campbell,				
one-third ..	700			
	<u>        </u>	2,100		
		<u>16,310</u>		
				<u>16,310</u>

Partners' salaries and interest on capital are methods of dividing profits, not a charge in arriving at those profits.

						£
Balance of profit	..	..	..	..	..	2,100
Partners' salaries	..	..	..	..	..	1,800
Profit	..	..	..	..	..	<u>3,900</u>

				<i>McIntosh</i>	<i>Campbell</i>	<i>Total</i>
				£	£	£
Salaries .. ..	..	..	..	600	1,200	1,800
Interest on capital	..	..	..	60		60
Balance .. ..	..	..	..	1,020	1,020	2,040
				<hr/>	<hr/>	<hr/>
				1,680	2,220	3,900

The year 1960/61 will not be the first year during which the new division will be used for tax purposes. As the change took place on December 31, 1959 (that is during 1959/60), the division of the assessment for that year will need adjustment. The assessment for 1959/60 will be based on the results shown by the accounts for the year ended September 30, 1958. Assuming the profits for that year were £2,800, the final division would be:

				McIntosh £	Campbell £	Total £
First nine months (fractions of months ignored), April 6 to December 31, 1959:						
Salaries	..	..	..	750	600	1,350
Balance	..	..	..	500	250	750
Last three months, January 1 to April 5, 1960:						
Salaries	..	..	..	150	300	450
Interest on capital	..	..	..	15		15
Balance	..	..	..	117	118	235
				<hr/> 1,532	<hr/> 1,268	<hr/> 2,800

**Illustration:**

<i>McIntosh</i>	<i>Campbell</i>	<i>Stuart</i>	<i>Total</i>
£	£	£	£

One month, April 6 to May 1, 1960 (fractions of months have been ignored):				
Salaries .. .. .	50	100		150
Interest on capital ..	5			5
Balance .. .. .	85	85		170
				<hr/> 325

Salaries .. ..	550	1,100	770	2,420
Interest on capital ..	55			55
Balance .. ..	440	440	220	1,100
	<u>1,185</u>	<u>1,725</u>	<u>990</u>	<u>3,900</u>

[To be continued]

# The Institute of Chartered Accountants in England and Wales

## Meetings of the Council

AT SPECIAL AND ordinary meetings of the Council held on Wednesday, December 6, at the Hall of the Institute, Moorgate Place, London, E.C.2, there were present: Mr. P. F. Granger, President, in the chair; Mr. P. F. Carpenter, Vice-President; Mr. J. F. Allan, Mr. C. Percy Barrowcliff, Mr. W. L. Barrows, Mr. T. A. Hamilton Baynes, Mr. J. H. Bell, Mr. H. A. Benson, C.B.E., Sir William Carrington, Mr. G. T. E. Chamberlain, Mr. D. A. Clarke, Mr. J. Clayton, Mr. C. Croxton-Smith, Mr. E. Hay Davison, Mr. W. G. Densem, Mr. S. Dixon, Mr. W. W. Fea, Sir Harold Gillett, Bt., M.C., Mr. J. Godfrey, Mr. G. G. G. Goult, Mr. J. S. Heaton, Mr. D. V. House, Mr. J. A. Jackson, Mr. H. O. Johnson, Mr. W. H. Lawson, C.B.E., Mr. H. L. Layton, Mr. R. B. Leech, M.B.E., Mr. E. N. Macdonald, D.F.C., Mr. R. McNeil, Mr. J. H. Mann, M.B.E., Mr. R. P. Matthews, Mr. Bertram Nelson, C.B.E., Mr. W. E. Parker, C.B.E., Mr. S. J. Pears, Mr. C. U. Peat, M.C., Sir Thomas Robson, M.B.E., Mr. J. D. Russell, Mr. K. G. Shuttleworth, Mr. R. G. Slack, Mr. D. Steele, Mr. J. E. Talbot, Mr. A. H. Walton, Mr. V. Walton, Mr. F. J. Weeks, Mr. M. Wheatley Jones, Mr. J. C. Montgomery Williams, Mr. R. P. Winter, C.B.E., M.C., Mr. E. K. Wright.

### Resignation from the Council

The Council received with much regret the resignation of Mr. K. G. Shuttleworth, F.C.A., Sheffield, from his membership of the Council. Mr. Shuttleworth had been a member of the Council since 1948.

### Summer Course Committee

The Secretary reported that Mr. J. A. Jackson had been appointed Chairman and Mr. J. H. Mann Vice-Chairman of the Summer Course Committee.

### Appointments to Committees

The Council appointed Mr. R. G. Slack to the following committees:

Applications Committee.  
District Societies Committee.

### European Congress of Accountants 1963

The Council received a report from Sir Thomas Robson on a meeting of representatives of European accountancy bodies held in Glasgow on November 28, 1961, at which it was agreed that arrangements should proceed for the holding of a European Congress of Accountants in Edinburgh in the week commencing September 8, 1963. Mr. A. McKellar, Past President of The

Institute of Chartered Accountants of Scotland, had been appointed President of the congress and Chairman of the Policy Committee. Mr. J. C. Stewart, Vice-President of The Institute of Chartered Accountants of Scotland, had been appointed Vice-Chairman of the committee.

### American Institute of Certified Public Accountants

The Council received a report from Mr. S. John Pears on his attendance at the annual meeting of The American Institute of Certified Public Accountants held in Chicago from October 29 to November 1, 1961.

### Royal Charters and Bye-laws

The amendments to clauses 18 and 31 of the Supplemental Royal Charter of 1948, as approved by the members in general meeting on May 3, 1961, and at the subsequent confirmatory meeting, were allowed by Her Majesty in Council on October 24, 1961. The revised clauses are therefore now effective.

The amendments to bye-laws 2, 42, 54, 58, 61, 62, 63, 79 and 85 as approved by members on May 3, 1961, were allowed by the Lords of Her Majesty's Most Honourable Privy Council on October 24, 1961. The revised bye-laws are therefore now effective (except that in relation to bye-law 42 the amendments do not take effect until January 1, 1962).

The general effect of the amendments to clauses 18 and 31 of the Supplemental Royal Charter and of the consequential amendments to the bye-laws is as follows:

- (a) most of the references to "England and Wales" and "England or Wales" in the Royal Charters and bye-laws have been replaced as from October 24, 1961, by references to "the United Kingdom"; the purpose is to enable an associate or a fellow in practice as a public accountant in Scotland or Northern Ireland to take articulated clerks under precisely the same conditions as an associate or fellow in practice in England or Wales;
- (b) as a consequence of (a), all members resident in Scotland or Northern Ireland (whether or not in practice) will as from January 1, 1962, pay annual subscriptions at the same rates as those of members resident in England or Wales instead of, as hitherto, the rates applicable to overseas members;
- (c) "practice" now means practice as a

public accountant in any part of the world (instead of in England or Wales only) except where otherwise provided.

The effect of the amendments to bye-law 63 is that the Council is now empowered to consider applications for exemption from the Preliminary examination and for a reduction in service under articles to four years from members of H.M. Forces who have not had war service. The Council will consider applications under the bye-law only if the applicant is over thirty years of age and has held a regular commission for at least five years.

Amendments for Section A of the *Members' Handbook* will be issued in due course to incorporate the foregoing changes in the Royal Charters and bye-laws.

### Registration of Articles

The Secretary reported the registration of 635 articles of clerkship during the last month, the total number since January 1, 1961, being 2,987.

### Members Commencing to Practise

The Council received notice that the following members had commenced to practise:

- ABRAMS, DRUMMOND ERNEST, A.C.A., a1957; †Spain Brothers, McNab & Co., 134 High Street, Tonbridge, Kent.  
ARCHER, ERIC CHARLES, A.C.A., aS1956; \*O. & W. B. Haworth, Holyhead Chambers, 1 Holyhead Road, Coventry, and at Blackpool.  
ASLIN, JOHN REGINALD, A.C.A., a1961; Woolley & Waldron, and Barton, Mayhew & Co., Blue Peter House, 8/10 Portland Terrace, Southampton.  
BAILEY, ERIC ROY, A.C.A., a1958; Thwaites & Blackwell, 1 Arkleigh Mansions, Brent Street, Hendon, London, N.W.4.  
BALDERSTONE, JOHN PHILIP, A.C.A., a1957; S. C. Parker & Co., 15 Bridge Road, Wellingdon, Shropshire, and at Newport (Salop) and Wolverhampton.  
BLAKENEY, JOHN SAMUEL, A.C.A., a1961; 44 Meadow Road, Kingswood, Watford, Herts.  
BRANCH, FRANK, A.C.A., a1959; G. Tattersall, 19 John William Street, Huddersfield.  
BROWN, CYRIL HENRY, B.A., A.C.A., a1960; Newton, Armstrong & Co., 4 Dove Court, Old Jewry, London, E.C.2.  
DAVIS, DAVID, B.Sc., A.C.A., a1961; Cohen, Arnold & Co., Ling House, Dominion Street, London, E.C.2.  
DEEKS, DOUGLAS JOHN ARTHUR, A.C.A., a1961; Pratt & Co., 44 Robertson Street, Hastings, and at Tunbridge Wells.  
DUCKWORTH, HAROLD, F.C.A., a1930; Robert Parkinson & Co., 4 Braidwood Terrace, North Hill, Plymouth, and at Newton Abbot and Plympton.  
DYE, MICHAEL DALZIEL, A.C.A., a1960; Glass & Edwards, 3 Stanley Street, Liverpool 1.  
EDKINS, GEORGE JOSEPH, A.C.A., a1960; Pike,

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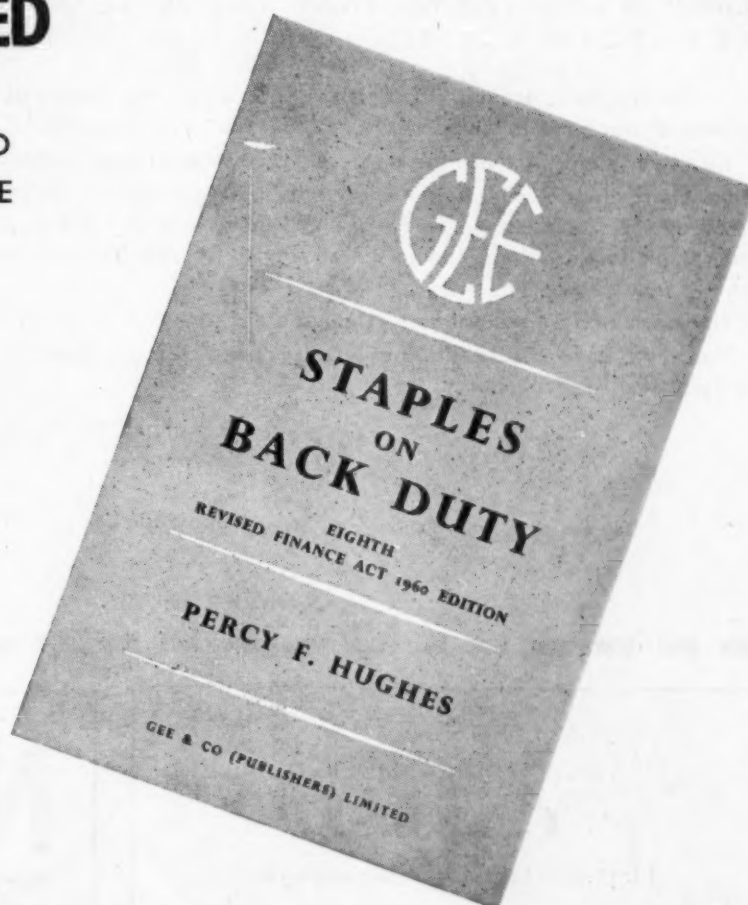
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- KAYE, STEPHEN GARTH, A.C.A., a1957; Kaye, Howarth & Co., Alexandra Chambers, 32 John William Street, Huddersfield.
- KEMSLEY, KENNETH JACK ZEITAL, A.C.A., a1961; Kemsley & Co., 76 Abbotswood Gardens, Ilford, Essex.
- KEYTE, BRIAN EDWARD, A.C.A., aS1954; \*Kingscott, Dix & Co., The Booth Hall, Market Place, Evesham, Worcs., and at Broadway; also at Pershore, \*A. J. Feek & Co.
- LAURIE, DONALD LANSBURY, A.C.A., a1958; 8 Hamilton Square, Birkenhead, and at Liverpool.
- LEVETT, RICHARD STUART, A.C.A., a1959; R. S. Levett & Co., Carlisle House, 8 Southampton Row, London, W.C.1.
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- LYONS, BARRY HUGH, A.C.A., a1959; Alfred N. Emanuel & Co., Richmond House, 12/13 Richmond Buildings, Dean Street, London, W.1.
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- MASTERS, NORRIS DAVID, A.C.A., a1960; 25 Welbeck Street, London, W.1.
- MERRICKS, GRAHAM WYATT, A.C.A., a1960; 74 Spencer Road, Caterham, Surrey.
- MIDDLETON, DEREK JAMES, A.C.A., a1960; Hargreaves, Brown & Benson, 2 Derby Street, Colne, Lancs.
- MILNE, JOHN DUNCAN, A.C.A., a1961; Old Bank Chambers, 8 Park Row, Leeds, 1.
- MOORE, BRIAN, A.C.A., a1961; Warley & Warley and Rigden, Ince & Richards, 13 Bloomsbury Square, London, W.C.1, and at Tonbridge; also at 74 Marylebone High Street, London, W.1, and Enfield, Hayden Green & Co.
- MOORE, JOHN EDWARD, A.C.A., a1961; Walter Moore & Co., 19 Paradise Square, Sheffield, 1.
- PACKER, WILLIAM REES, A.C.A., a1959; C. T. Kilner & Co., 21 Lower Belgrave Street, London, S.W.1.
- POLLARD, MICHAEL, A.C.A., a1961; Michael Pollard & Co., 79 Cranley Gardens, London, N.10.
- PROUD, KENNETH HAROLD, A.C.A., aS1954; Harold Brown & Co., Prudential Buildings Colmore Row, Birmingham 3.
- RICHER, CHARLES MARTIN, A.C.A., a1952; †Spain Brothers, McNab & Co., 14 St. John's Road, Tunbridge Wells, Kent, and at Ashford, Orpington and Tonbridge; also at Dover and Folkestone, †Richard White, Spain Brothers & Co.
- SCOTT, ERIC LESLIE, A.C.A., a1961; Muir, Moody & Co., 388 Seven Sisters Road, Finsbury Park, London, N.4.
- SELBY, HARVEY, A.C.A., a1961; H. Selby & Co., 68 The Grove, Edgware, Middlesex.
- SHORT, JOHN SIDNEY, A.C.A., a1959; Ernest Francis & Son, 37 Winchester Street, Basingstoke.
- SLEE, GEOFFREY WALTER, A.C.A., a1956; Smith, Weir & Turner, 16 Oxford Street, Manchester 1; also at Rochdale, E. Turner & Co.
- SMITH, KENNETH, A.C.A., aS1957; Barnett & Turner, 68 West Gate, Mansfield.
- SPENCER, CLEMENT RODNEY, A.C.A., a1953; Gough & Wright and \*Gough, Wright & Co., 11 St. James's Road, Dudley, and at Brierley Hill and Stourbridge; also at West Bromwich, Gough & Wright and \*Gough, Wright, Smith & Co.
- STANSIL, FRANK, A.C.A., a1958; \*S. G. Banister & Co., 15 Golden Square, London, W.1.
- SUGARWHITE, JEFFREY, A.C.A., a1961; J. Sugarwhite & Co., 233 Evering Road, London, E.5.
- TENNANT, DAVID WALLER, A.C.A., a1956; Walker, Fullerton, Hartley & Co., 10 Clarendon Road, Leeds 2, and at Harrogate.
- VAUGHAN, EDGAR KEITH, A.C.A., a1956; Edgar K. Vaughan & Co., 22/23 Gloucester Mansions, Cambridge Circus, London, W.C.2, and at Stanmore.
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### Resignations

The Council accepted the resignations from membership of the Institute of:

- HAIG, ROBERT FAIRLEY, A.S.A.A., 2 Meadowhead Place, Addiewell, West Calder, Midlothian.
- MASON, EDWARD CHARLES, F.S.A.A., 221 London Road, Leicester.
- YARWOOD, WALTER, F.C.A., 37 Parkfield Avenue, North Harrow, Middlesex.

and of the following members with effect from December 31, 1961:

- GROWCOTT, DOUGLAS RAY, F.C.A., "Larchfield," Churt, Surrey.
- PERCIVAL, FRANK, F.C.A., 600 Wood Lane, London, W.12.
- STRAKER, FREDERICK EATON, F.S.A.A., Shortlands Farm, P.O. Marandellas, S. Rhodesia.

### Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

- ALDRICH, STEPHEN READ, F.C.A., Preston.
- CAESAR, THE REVEREND CANON HAROLD DOUGLASS, M.A., F.C.A., Bournemouth.
- COAKELEY, BRIAN ANTHONY, F.C.A., London.
- DAVIE, PERCY, F.C.A., Brighouse.
- FORDHAM, GEORGE, F.S.A.A., Bolton on Dearne.
- GRAINGER, RICHARD ERNEST, F.C.A., Wallasey.
- GREEN, FRED STANLEY, F.C.A., Pinner.
- HOPE, EDWARD, F.C.A., Liverpool.
- HORTON, JOHN WILLIAM, B.COM., F.C.A., Paris.
- HYLAND, HARRY ARMITAGE, F.C.A., Glasgow.
- LANG, STEPHEN RUSSELL, F.C.A., Midgham Park, Berks.
- MANSFIELD, JOHN PERCY, F.C.A., Milan.
- MARTYN, RICHARD GEORGE HAROLD, F.C.A., Nottingham.
- MERRICK, ARTHUR LEWIS, F.C.A., Oldham.
- MILLER, ROBERT, F.C.A., Romiley.
- MORGAN, IAN ROBERT, F.C.A., Manchester.
- MURRAY, GEORGE STEVENS, F.C.A., Paris.
- PATTON, BERNARD, F.C.A., London.
- PRATT, DUDLEY HOWARD, B.A., F.C.A., London.
- STRUTHERS, JOHN NORMAN, F.C.A., Manchester.
- THOMERSON, FRANK LESLIE, F.C.A., Brighton.
- WALLACE, WILLIAM, F.C.A., Brighton.
- WARD, JACK, A.C.A., Haslingden, Lancs.
- WOODTHORPE, PERCY, F.C.A., Northwood.
- YARWOOD, SIDNEY RUPERT, F.C.A., Liverpool.

## Finding and Decision of the Disciplinary Committee

*Finding and Decision of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21, 1948, at a hearing held on November 1, 1961.*

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that a fellow of the Institute had been guilty of acts or defaults discredit-

### Admission Void

The Secretary reported that the admission to membership of the following person had become void under bye-law 41:

- DIXON, ANTHONY WILLIAM, 80 Moor Drive, Great Crosby, Liverpool.

### Re-admission to Membership

It was reported to the Council that the following re-admission, made at the Council meeting on November 1, 1961, subject to payment of the amount required, had become effective:

- SKETT, JOHN CHARLES, A.C.A., with †Gill &

a Indicates the year of admission to the Institute.  
aS Indicates the year of admission to The Society of Incorporated Accountants.

Firms not marked † or \* are composed wholly of members of the Institute.

† Against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

\* Against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.



able to a member within the meaning of subclause (3) of Clause 21 of the supplemental Royal Charter in that he signed the Accountant's Certificate required by Section 1 of the Solicitors Act 1941 relating to the practice of a solicitor for the accounting period April 1, 1957, to March 31, 1958, which he knew or which he ought to have known was not correct, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint had been proved and the Committee ordered that the member be admonished but considered that there existed special circumstances justifying the omission of his name from the publication of the Finding and Decision.

## The "Elephant" does not Forget

THE NORTHERN SOCIETY of Chartered Accountants held its annual dinner at the Old Assembly Rooms, Newcastle upon Tyne, on November 10, with its President, Mr. P. T. Duxbury, F.C.A., in the chair. Among the guests were Councillor T. W. Collins, deputy Lord Mayor of Newcastle upon Tyne; Mr. F. Wilcock, F.S.A.A., F.I.M.T.A., City Treasurer; Mr. J. Atkinson, M.A., Town Clerk; Mr. E. J. Hunter, C.B.E., B.Sc., M.I.N.A., M.I.M.A.R.E., J.P.; Mr. D. B. Ward, M.B.E., F.C.A.; Mr. E. L. F. Bittermann, O.B.E.; Mr. P. F. Granger, F.C.A., President of The Institute of Chartered Accountants in England and Wales; Mr. C. H. S. Loveday, F.C.A., Under-Secretary of the Institute; Mr. W. Taplin, M.A., B.COM., Editor of ACCOUNTANCY, and many representatives of the professions, business, commerce, finance and the Inland Revenue.

Proposing the toast of The Institute of Chartered Accountants in England and Wales, Mr. E. J. Hunter, chairman of the shipbuilding company of Swan, Hunter & Wigham Richardson, said that Mr. Granger, his fellow pupil at Oundle, and son of a professor of classics, had the ideal background: a classical upbringing, a scientific education and the qualification of a chartered accountant. For chartered accountants had become one of the most indispensable sections of the community: it would be impossible to run large industrial organisations without them. In fact, the Government had recently taken the link between shipbuilding and accountancy a step further by appointing a well-known firm of chartered accountants to investigate the shipbuilding industry.

Replying to the toast, Mr. Granger, President of the Institute, said that from an administrative point of view their Institute of 35,000 members, with an annual intake of something like 3,000 articled clerks, was now coming within the category of big business. It was important that as many members as possible should belong to their

district society, branch or group, and take a real interest in its activities. The bounds of the profession were widening every day, and because of that expansion they needed more and more help from the district societies and branches and groups. There might be a possible feeling in some quarters that the elephant at Moorgate Place was oblivious to what was going on elsewhere, but every local Council member and members on the Taxation and Research Committee could assure his hearers that at no time had there been a greater interest taken in members' individual problems.

The nation was moving into fresh fields of endeavour, and the Common Market and the present negotiations must be in all their minds. Either way it was apparent that facts and figures relating to business activities would be necessary, but while the production of facts and figures was necessary it was what they meant that was all-important.

The toast of the guests was proposed by Mr. D. B. Ward. The response came from Mr. E. L. F. Bittermann, Clerk to the Tyne-mouth Magistrates.

## What is the Chartered Accountant's Image?

THE MANCHESTER SOCIETY of Chartered Accountants held its annual dinner at the Midland Hotel on November 16. The President, Mr. W. Hare, M.A., F.C.A., took the chair. Among the 400 members and guests was the Lord Mayor of Manchester, Alderman L. W. Biggs; the top table included all the fourteen presidents of district societies, as well as representatives of civic life, the professions, trade, commerce, finance and the Inland Revenue.

Sir Kenneth D. Stewart, Bt., C.B.E., chairman of the Trustee Savings Banks Association, proposed the toast of The Institute of Chartered Accountants in England and Wales. He felt no doubt that the ideals of the Institute had done more for business in this country than any other institution: the country owed chartered accountants a tremendous debt for the integrity they always displayed.

Responding to the toast, Mr. P. F. Granger, F.C.A., President of the Institute, said that the public did not always understand what members of the accountancy profession did. A public relations committee had recently been established to project the image of what a chartered accountant is and what he does. This was not an easy thing to do, owing to the variety of ways in which members earned their living. They were modest violets where publicity was concerned and concealed their many fine qualities behind a modest exterior. Furthermore there was a highly efficient investigation committee of the Council to see that such blossoming as was done was in accordance with regula-

tions. Thus this question of images was an awkward one. As a profession, whether in industry, practice or what you will, they were dedicated to the concept of a true and fair view of the facts and figures, but words had queer associations. What, for instance, was the Manchester image? To the speaker it conveyed a sense of a great industrial area, Cobden, free trade, cricket, radicalism, Owens, the Hallé Orchestra, a superb newspaper, kindness... all wrapped up in more than a fair proportion of rain. How would they project that? What was the image for 35,000 members, an intake of 3,000 articled clerks per annum, members in internationally known practices, members at the head of internationally known companies, members in medium and small practices or businesses, members employed in government and overseas? Moreover, members had a record of assistance in charitable causes which was second to none.

Now business men were always wanting to know not only how past profits were made, but what profits could be made in future (naturally accepting the hazards of the economic climate). The President would urge that when a business man was contemplating alterations in his systems or organisation, he should first consult his auditors, who could render great assistance in almost every case. If, however, specialist advice on managerial problems was required, the profession was fully equipped to render it.

In their profession, Mr. Granger went on, they had to consider the problems of professional life as affecting all their members, and therefore at times it fell to the Institute to take a section of membership and see how it in particular was affected. At the moment, with the help of the district societies, of which Manchester was one of the greatest and oldest, the Council was engaged on an inquiry into the problems of members in practice in a small way. There was no need for him to say in Manchester, with its individual approach, that the individual was important in the general scheme of things even today. He would urge all members who felt they could contribute something to this inquiry to get into touch with their district society or branch secretary, so that the inquiry might provide Moorgate Place with the facts.

He had just referred to the importance of the district society in the accounting scheme of things. It might be of interest to know that out of the seven original petitioners for the Royal Charter in 1880, two came from Manchester. Through the years the chartered accountants of the Manchester District Society had continued to make their contribution as presidents of the Institute and as members of the Council. It was a great record.

Mr. W. Hare, M.A., F.C.A., proposing the toast of the guests from the chair, felt that the President of the Institute probably saw them all in Manchester as just another district society—perhaps more rebellious and more enterprising than most. But he hoped other district societies would follow



the example of the North, where they had taken the lead in assembling details of professional costs and earnings.

The Lord Mayor of Manchester, Alderman L. W. Biggs, J.P., replying on behalf of the guests, said they were all animated by one thought, and that was of tremendous gratitude for the most generous hospitality accorded to them. It was an evening they would long remember.

Mr. G. W. Murphy, B.A., F.C.A., vice-president of the Society, in proposing a vote of thanks to the chairman, mentioned that Mr. Hare was the second partner of his firm in the last few years to be president of the Society.

In his reply Mr. Hare thanked the members of the committee who had made the dinner possible, and in particular the untiring assistant secretary, Miss Ritchie, who had done so much hard work.

## The Profession of Accountancy

THE LIVERPOOL SOCIETY of Chartered Accountants held its annual dinner at the Adelphi Hotel on November 24, over 500 members and guests being present.

Proposing the toast of the City and Trade of Liverpool, Mr. Philip C. Lloyd, F.C.A., President of the Liverpool Society, who was in the chair, said that greater opportunities than ever before existed now for the further expansion and progress of the city. The pattern had changed considerably, and would continue to change, but it would certainly not decay. Liverpool had become a vast commercial and industrial centre since the day, only 150 years ago, that witnessed the arrival in the Mersey of the first steamship from America.

Replying to the toast, the Lord Mayor, Alderman Peter McKernan, said Liverpool had urgent problems which must be faced, but they hoped its future citizens would inherit a city worthy of their generation.

Sir Denis H. Truscott, a former Lord Mayor of London, proposed the toast of The Institute of Chartered Accountants in England and Wales. Chartered accountants, he emphasised, were required for the building up and the planning of the future policies of business houses. Therein lay vast possibilities of rendering valuable service to the country.

Replying to the toast, Mr. P. F. Granger, President of the Institute, said that over the past fifteen years there had been greater changes in the work and activities of the Institute than in the previous sixty-six. *Tempora mutantur nos et mutamur in illis.*

In the supplemental Royal Charter of 1948, the President went on to say, it was stated that since the original Charter of 1880 the Institute had "aimed at the elevation of the accountancy profession as a whole and

the promotion of its efficiency and usefulness by compelling the observance of strict rules of conduct as a condition of membership and by setting up a high standard of professional and general education and knowledge and has thereby secured for the community the existence of a class of persons well qualified to be employed in the responsible and difficult duties devolving on professional accountants."

Now he would like to take up the phrase—"the duties devolving on professional accountants." He would paraphrase Lord Simon's definition of a profession as (1) Preliminary study, training and examination; (2) Profits do not depend on the command of great quantities of capital; (3) Most important of all, a profession is a pursuit subject to overriding duties, the strict observance of confidences and the rendering of services without stint in proportion to need rather than in proportion to reward. One of the important points about what he had just read was that it applied whether the member was in practice or in industry or in any other job.

"What is the job of our members in this changing world of today?" Mr. Granger asked. Whether in practice or in industry, it was to ensure that they presented a true and fair view of the records which they examined or for which they were responsible. That was basic. They must see that the figures were true and fair and thus correctly presented the facts. Fortunately today their horizons were widening and they were moving into fields where they could be of even greater use to the business community. He was now referring to management accounting and the like. As his audience knew, all members had to qualify through working in the office of a practising chartered accountant and by passing reasonably rigorous examinations. This training ensured that the qualified man had at least some knowledge of business figures and their uses. Accordingly, those responsible for budgeting and forecasting and so on would find consultation with the auditors of great value. In the higher flights there were specialist firms of chartered accountants who were available for consultation and advice. Here again, the auditors could be of assistance. Furthermore, the numerous members employed in industry in that field were rendering a great contribution to the trade and commerce of the country, and their work would become even more important, whether we joined the Common Market or not. It might not be widely known that one of the permanent committees of the Institute was the Consultative Committee of Members in Commerce and Industry. That committee, linked as it was to the very many members in commerce and thus able to draw on their experience, had rendered and was rendering invaluable assistance in the many problems besetting the country today.

To carry out all those jobs the Institute was recruiting some 3,000 young men and women each year, and it was essential to obtain a due proportion of the very best of those coming up to maturity. Consequently

links, not only with the schools but also with the universities, must be as close as they could be made. As the years went on an increasing proportion of young people would go to the universities, and the great opportunities and advantages of the accountancy profession must be made known to them.

Mr. Granger concluded by adding that he could not come to Liverpool without mentioning George Saunders and Sandie Walker, who had rendered first class service to the Institute as members of the Council and Chairmen of Committees. As President he paid his tribute to them and condoled with the Society on their loss.

Mr. S. Morris, F.C.A., Vice-President of the Liverpool Society, proposed the toast of the guests and Sir John R. Simpson, K.B.E., responded.

## President's Luncheon

THE PRESIDENT of the Institute, Mr. P. F. Granger, and the Vice-President, Mr. P. F. Carpenter, gave a luncheon party on December 1, at the Dorchester Hotel, London. The guests were: The Bishop of London, Mr. Anthony Barber, Sir William Haley, Sir Alexander Johnston, Mr. Geoffrey Lawrence, Q.C., Sir Basil Smallpeice, Sir William Carrington, Mr. W. H. Lawson, Mr. S. John Pears and Mr. Alan S. MacIver.

## Women Chartered Accountants' Dinner

ON DECEMBER 1 the Women Chartered Accountants' Dining Society held its annual dinner at the Connaught Rooms. The Chairman, Miss J. Parry, F.C.A., proposed the toast of The Institute of Chartered Accountants in England and Wales. In his reply Mr. P. F. Granger, F.C.A., President of the Institute, conjectured what it would be like to be married to a chartered accountant: he personally thought they were very good chaps, generous, kindly, good at washing up—a mixture of St. Paul, St. Francis of Assisi, Gary Cooper, Einstein, and a Hoover. "The Two Nations—America and Britain" was proposed by Miss D. M. Vaughan, B.A., F.C.A.; Dr. Helen Cam, C.B.E., M.A., Litt.D., Fellow of Girton and sometime Professor of History at Harvard, replied. Mrs. M. E. Burgess, F.C.A., gave the toast of the guests, and Professor Arthur Newell, Senior Lecturer of British-American Associates, the response.

During the evening a presentation was made to Miss Ethel Watts, B.A., F.C.A., a founder member of the Dining Society

and its first chairman—long regarded as the leading woman chartered accountant—who is the first woman member of the Institute qualified by examination (there are now 350) and the first woman to sit on the Committee of the London District Society, Miss Watts, who has recently retired from practice, has been a pioneer all along the line.

## District Societies

### BIRMINGHAM

A ONE-DAY CONFERENCE of Shropshire and Herefordshire practising members of the Institute was held at Welshpool on November 7. Mr. C. J. Mason, District President, was in the chair. Mr. W. R. Dean gave a paper on "The Preparation of Farm Accounts."

### CORNWALL AND PLYMOUTH BRANCH

THE ANNUAL DINNER was held at the Tregenna Castle Hotel, St. Ives, on November 23. The toast of the County of Cornwall was proposed by Mr. W. E. Dewdney, F.C.A., President of the Bristol and West of England Society, and acknowledged by Mr. G. R. Fox, M.A., High Sheriff of Cornwall. Mr. A. M. Lee, Q.C., Recorder of Penzance, proposed the toast of The Institute of Chartered Accountants in England and Wales, the response being made by Sir Harold Howitt, G.B.E., D.S.O., M.C., D.C.L., LL.D., D.L., J.P., F.C.A., a past-President of the Institute. The toast of the guests, among whom was the Mayor of St. Ives, was given by Mr. F. Warren, F.C.A., Chairman of the Cornwall and Plymouth Branch; Mr. J. M. Barton, President of the Cornwall Law Society, replied.

### EXETER AND DISTRICT BRANCH

THE EXETER and District Branch of the Bristol and West of England Society held its annual dinner at the Rougemont Hotel, Exeter, on December 1. The toast of the City and County of Exeter was proposed by Mr. Hugh Park, Q.C., Recorder for Exeter, and acknowledged by the Mayor, Councillor A. P. Steele-Perkins, M.C. Sir George Hayter-Hames, C.B.E., Chairman of the Devon County Council, gave the toast of The Institute of Chartered Accountants in England and Wales, and Mr. Bertram Nelson, C.B.E., J.P., F.C.A., a member of the Council, replied. "Our Guests" was proposed by Mr. R. H. T. Burgess, F.C.A., from the chair, the response being made by Mr. K. C. H. Rowe, M.B.E., J.P.

### GRIMSBY AND NORTH LINCOLNSHIRE BRANCH

THE ANNUAL DINNER was held at the Royal Hotel on November 9. The Chairman, Mr. W. McWilliam, F.C.A., presided. Proposing the toast of The Institute of Chartered Accountants in England and Wales, Professor J. S. G. Wilson, M.A., of the Department of

Economics and Commerce, University of Hull, promised the fullest co-operation of the university in developing a partnership between the accountancy profession and the universities. The response was given by Mr. D. A. Clarke, LL.B., F.C.A., member of the Council. Mr. D. L. Stephenson, F.C.A., immediate past-President of the Branch, proposed the toast of the guests, to which Mr. G. R. Douglas replied.

### READING & DISTRICT GROUP

THE ANNUAL GENERAL meeting of the Group was held at Reading on November 6. In the absence of the Chairman, the Vice-Chairman, Mr. K. W. Clark, F.C.A., presided.

Elections for the coming year were: Chairman, Mr. K. W. Clark, F.C.A.; Vice-Chairman, Mr. W. H. V. Witcher, F.C.A.; Hon. Secretary and Treasurer, Mr. D. J. L. Cook, A.C.A.; Committee, Mr. W. G. K. Ames, F.C.A., Mr. B. Bubbs, F.C.A., Mr. M. E. Cunningham-Craig, F.C.A., Mr. D. H. Hill, F.C.A., Mr. G. C. Jones, F.C.A., and Mr. J. Sewell, F.C.A.

A discussion on the Parker Report on Education and Training in the Accountancy Profession was led by Mr. W. K. Wells, B.A., F.C.A., of London.

## Chartered Accountants' Hockey Club

THE HONORARY SECRETARY, Mr. S. N. Elgar, 22 Queen Anne Street, London, W.1, will be glad to hear from hockey players, particularly those in the London area, who would like to represent the Institute in games arranged for this season. Fixtures include matches with the Law Society, the Chartered Surveyors, the Insurance H.A., the Inland Revenue, the Bank of England and Oxford University Occasionals. He will also be pleased to consider articulated clerks for selection for these games, and to put them in touch with their own student secretary, who has arranged fixtures in Nottingham, Newcastle, Birmingham and Cardiff as well as London.

As already announced, it is hoped to start the 1962/63 season with one or more matches in New York during the time of the International Congress, and hockey players who are hoping to attend the Congress and who would like to be considered for games against the Privateers and also perhaps the Dutch, German and Belgian Institutes should inform the secretary.

The President of the Club is Sir William Carrington. Mr. C. O. Merriman (Reigate), the former secretary, has become a Vice-President in addition to Mr. Dermot Tripp (Surbiton) and Mr. Desmond Craig (Bulawayo). The committee is composed of the following members: Mr. S. N. Elgar, Mr. A. C. A. Myers, Mr. M. A. Charlton, Mr. M. L. Pecker, Mr. S. J. Titcomb, Mr. N. F. Holland, Mr. E. F. Freer, Mr. P. E. Brayshaw, Mr. C. E. Sinnott, and Mr. P. J. Boobbyer.

## Forthcoming Events

### BEDFORD

#### Students' Meeting

January 13.—(i) "Current Economics" and (ii) "European Free Trade," by Mr. W. G. Skinner, B.Sc.(ECON.), F.R.ECON.S. Swan Hotel, at 10 a.m.

### BIRMINGHAM

#### Students' Meeting

January 16.—"Investigations," by Mr. A. G. Hillman, F.A.C.C.A. Imperial Hotel, Temple Street, at 6.30 p.m.

### BOURNEMOUTH

#### Members' Meeting

January 10.—Walmer Hotel, Exeter Road, at 6 p.m.

### BRIGHTON

#### Students' Meetings

January 12.—Buffet meeting: (a) "Miscellaneous Accounts, including Containers and Royalties," and (b) "Income Tax—Capital Allowances," by Mr. K. S. Carmichael, A.C.A. King & Queen Hotel, Marlborough Place, at 6 p.m.

January 20.—"Practice of Banking," by Mr. T. V. J. Tilney, Barclays Bank Ltd. Conference Room 3, Royal Pavilion, at 10.30 a.m.

### CARLISLE

#### Students' Meeting

January 12.—"Verification and Valuation of Assets," by Mr. C. J. Russell, A.C.A. County and Station Hotel, at 6.45 p.m.

### COVENTRY

#### Students' Meeting

January 15.—"Departmental Store Management," by Mr. J. P. Dornan (Owen, Owen & Co. Ltd.). "Golden Cross," Hay Lane, at 5.30 for 6 p.m.

### EASTBOURNE

#### Students' Meetings

Lectures will be held at 10.30 a.m. at the Civil Defence Hall, Furness Road, unless otherwise stated.

January 6.—Annual General Meeting at 10 a.m., followed by lecture—"Taxation of Limited Companies," by Mr. G. W. Davies, F.C.A.

January 20.—Surprise lecture meeting.

### GRIMSBY

#### Students' Meeting

January 4.—"Did I make a Contract?" and "How do I make a Will?" by Mr. S. Wallace. Chamber of Commerce, 77 Victoria Street, at 7.30 p.m.

### HUDDERSFIELD

#### Members' Function

January 24.—Annual Dinner. Whiteley's Cafe, Westgate, at 7.15 for 7.30 p.m.

### HULL

#### Students' Meetings

All meetings are held at the Royal Station Hotel.

January 12.—"Dissolution of Partner-



ships," by Mr. J. B. Fletcher, A.C.A. At 6.15 p.m.

January 19.—"Valuation of Stock and Work in Progress," by Mr. F. G. Baxter, A.C.A. At 6.15 p.m.

#### ILFORD

##### Students' Meeting

January 5.—"An Executor's Programme," by Mr. R. Glynne Williams, F.C.A. Conservative Club, 42 High Road, at 6.30 p.m.

#### IPSWICH

##### Students' Meetings

January 9.—Talk by Mr. D. Rubery, an Ipswich solicitor, at the offices of Messrs. Patterson & Thompson, The Archdeacon's House, at 7.30 p.m.

January 18.—Intermediate lectures: "The Audit of a Balance Sheet," by Mr. C. J. Russell, A.C.A., at 11 a.m., and "Estate Duty," by Mr. D. Rich, A.C.A., at 2.30 p.m. Final lectures: "Consolidated Accounts," by Mr. D. Rich, A.C.A., at 1 p.m., and "Auditing," by Mr. C. J. Russell, A.C.A., at 4.30 p.m. All at the Golden Lion Hotel.

#### KINGSTON-ON-THAMES

##### Members' Meeting

January 1.—South-West London Discussion Group. Kingston Hotel, at 6.45 for 7 p.m.

#### LEEDS

##### Members' Meeting

December 29.—Luncheon meeting. Great Northern Hotel, at 12.45 p.m.

#### LEICESTER

##### Members' Meeting

January 18.—"The Trustee Investment Act and Unit Trusts," by Dr. Charles Walker, a director of Municipal and General Securities Co. Ltd. Luncheon meeting, Grand Hotel.

#### LONDON

##### Members' Meeting

January 8.—Luncheon meeting. Guest speaker: Mr. H. C. Drayton. Connaught Rooms, at 12.30 for 1 p.m.

##### Students' Meeting

January 18.—Visit to the Royal Mint (limited numbers).

#### MANCHESTER

##### Members' Meeting

January 8.—"Manchester as I Remember It," by Mr. Francis Jones, F.R.I.B.A., M.T.P.I. Luncheon meeting at 46 Fountain Street.

##### Students' Meetings

All meetings are held at the Chartered Accountants' Hall, 46 Fountain Street, at 6 p.m. (refreshments from 5.30 p.m.). In addition to the meetings listed below, the following lectures have been arranged by the Joint Tuition Committee: Intermediate on January 13 and 20; Final on the same dates. January 4.—"The Working of the Stock

Exchange," by Mr. J. J. Cummins, B.A. (COM.).

January 11.—"Loss of Profits Insurance," by Mr. S. Oakley, F.C.I.I., and Mr. W. H. Wanless, A.C.I.I.

January 18.—"Consolidated Accounts," by Mr. K. S. Carmichael, A.C.A.

#### NEWCASTLE UPON TYNE

##### Students' Meetings

January 11.—"Costing—the Principles and Treatment of Materials and Labour," by Mr. C. J. Russell, A.C.A. Neville Hall, at 6.30 p.m.

January 16.—Annual Ball. Old Assembly Rooms.

#### NOTTINGHAM

##### Students' Meetings

January 10.—"Mechanised Accounting," by a representative of Powers-Samas Ltd. Elite Cinema, Parliament Street, at 5.30 p.m.

January 17.—Visit to a Powers-Samas installation.

#### OXFORD

##### Students' Meetings

January 12.—Annual Dance. Randolph Hotel, at 8 p.m.

January 18.—"Financial Investigations," by Mr. C. R. Curtis, M.Sc.(ECON.), PH.D., F.C.I.S. Clarendon Restaurant, 6.30 p.m.

#### PORTSMOUTH

##### Students' Meetings

January 3.—"Branch Accounts," by Mr. R. S. Waldron, F.C.A. Conference Room, C.E.G.B., High Street, Old Portsmouth, at 5.30 for 6 p.m.

January 16.—"Company Accounts—Revision, Review, and Revealed Nonsense," by Mr. F. A. Roberts, F.C.A. Carnegie Library, Fratton Road, at 6 p.m.

#### PRESTON

Intermediate lectures have been arranged by the Joint Tuition Committee to be given at the Reform Club at 9.30 and 11 a.m. on January 13 and 20.

#### READING

##### Students' Meeting

December 21.—"Mechanised Accounting and the Auditor," by Mr. V. S. Hockley, B.COM., C.A., A.A.C.C.A. Great Western Hotel, at 7.15 p.m.

#### SHEFFIELD

##### Students' Meetings

January 2.—Social Evening. "Three Tuns," at 5.30 p.m.

January 8.—Soccer match away with Manchester Students.

January 11.—"The American Economy," by Professor D. C. Hague. St. James Club, at 5.30 p.m.

#### STOKE-ON-TRENT

##### Students' Meetings

January 9.—"Budgetary Control," by Mr. R. R. Gower, F.C.A. Grand Hotel, Hanley, at 5.30 for 6 p.m.

January 18.—Debate in conjunction with the North Staffordshire and District Law Students' Society and the Newcastle Young Conservatives. Grand Hotel, Hanley, at 5.30 for 6 p.m.

#### SUNDERLAND

##### Students' Meetings

January 5.—Annual Dinner-Dance. Roker Hotel.

January 10.—"Estate Accounts," by Mr. C. J. Russell, A.C.A. At Messrs. Rawlings & Wilkinson's offices, John Street.

#### TRURO

##### Members' and Students' Meeting

January 19.—"Tax in Court," at 4.15 p.m., and "Back Duty Sections of the Finance Act, 1960," at 6.15 p.m., by Mr. P. M. B. Rowland, LL.B., barrister-at-law. Red Lion Hotel.

#### WEST HARTLEPOOL

##### Students' Meeting

January 10.—"Personal Taxation including Surtax," by Mr. N. S. Todd, Municipal College of Commerce, Newcastle. Grand Hotel, at 6.15 p.m. (tea from 5.45 p.m.).

#### WOLVERHAMPTON

##### Members' Meeting

January 8.—One-day Conference. "A New Approach to Share Valuations," by Mr. T. A. Hamilton Baynes, M.A., F.C.A., at 9.30 a.m.; "When is a Consultant Necessary and Why?" by Mr. Hugh Young, B.F.C., A.C.W.A., at 11.15 a.m.; "Back Duty," by Mr. K. S. Carmichael, A.C.A., at 2.30 p.m. Victoria Hotel.

##### Students' Meeting

January 19.—Brains Trust. Rendezvous Restaurant, at 5.30 for 6 p.m.

#### WORCESTER

##### Students' Meeting

January 17.—Lecture on Banking. Crown Hotel, at 6.30 p.m.

## Personal Notes

Cooper Brothers & Co. and Coopers & Lybrand announce that they have opened an office at Wyatt's Building, Hunter Street, Port Moresby, Papua, New Guinea.

Mr. Donald Caswell, F.C.A., formerly secretary of Inchcape & Co. Ltd., London, E.C.3, has been appointed chief accountant of the group.

Messrs. Kaye, Howarth & Co., Chartered Accountants, Huddersfield, have admitted into partnership Mr. Stephen G. Kaye, A.C.A.

Messrs. Glass & Edwards, Chartered Accountants, Liverpool, announce that they have taken into partnership Mr. M. D. Dye, A.C.A., who served his articles with them and since qualifying has been a member of their staff.

Mr. Peter B. Wood, A.C.A., has been appointed chief accountant in the Trea-



suror's Department of Associated Electrical Industries Ltd.

Messrs. Francis S. Clark & Co., Chartered Accountants, Newton Abbot, Exeter and Teignmouth, announce that they have admitted into partnership Mr. B. C. Walker, A.C.A.

Mr. T. A. A. Kilner, A.C.A., has been joined in partnership by Mr. W. R. Packer, A.C.A., in the firm of C. T. Kilner & Co., Chartered Accountants, London, S.W.1.

Mr. D. M. Millis, A.C.A., has joined British Aluminium Co. Ltd., as Financial Controller—Overseas.

Mr. F. J. Goodall, F.C.A., has been appointed to the Board of W. H. Allen, Sons & Co. Ltd., Bedford. He has been chief accountant to the company since 1958.

Mr. J. C. Brooman, F.C.A., has been appointed export sales director of Black & Decker Ltd., Harmondsworth, Middlesex. Mr. E. A. King, A.C.A., has been appointed financial director.

Messrs. Brown, Fleming & Murray, Chartered Accountants, announce the retirement of Mr. G. F. R. Baguley, M.C., F.C.A., who has been a partner in the London firm since 1926.

Mr. Geoffrey S. Palmer, A.C.A., has joined James Booth Aluminium Ltd., Birmingham, as chief accountant.

Messrs. Bolton, Wawn & Co., Chartered Accountants, Newcastle upon Tyne and Sunderland, announce that their senior partner, Mr. J. H. Pigg, F.C.A., has retired from the partnership. He is available to the firm in connection with the work with which he has been identified and also in a consultative capacity. The practice is being continued by the remaining partners with the addition of Mr. W. P. Dickinson, A.C.A., and Mr. N. G. Trotter, B.COM., A.C.A. The firm's name and addresses remain unchanged.

Messrs. Bolton, Wawn & Co., Chartered Accountants, London, W.C.2, announce that their senior partner, Mr. J. H. Pigg, F.C.A., has retired from the partnership. He is available to the firm in connection with the work with which he has been identified and also in a consultative capacity. The practice is being continued by the remaining partners with the addition of Mr. W. A. Reah, F.C.A., and Mr. R. J. Churchill, M.A., A.C.A. The firm's name and address remain unchanged.

Messrs. Chalmers, Wade & Co. and Messrs. Impey, Cudworth & Co. announce that they have amalgamated their practices and that the joint practice is being carried on under the name of Chalmers, Wade, Impey, Cudworth & Co. They also announce that they have admitted to partnership Mr. John Attwood Hutchings, M.A., A.C.A., who was a member of the staff of the London Office of Chalmers, Wade & Co. Mr. H. A. Beale, F.C.A., is retiring from practice on December 31, but will be available as a consultant. The London offices of both firms have removed to St. Alphage House, London Wall, E.C.2, and the Warrington office to

17 Palmyra Square South, Warrington.

Messrs. Butler, Viney & Childs and Messrs. Thomson, Gregory, Thol & Co. announce the retirement of Mr. E. Stanley Thorn, F.C.A., as a partner. Mr. Thorn, who has been a member of the Institute for more than fifty years, remains available as a consultant.

Mr. C. E. W. Lavender, F.C.A., has been appointed Chairman of Trafford Park Estates Ltd., Manchester.

Mr. A. B. Snow, F.C.A., Hanley, Stoke-on-Trent, announces that he has been joined in partnership by his son, Mr. Geoffrey Bernard Snow, A.C.A. The practice continues to be carried on in the name of A. B. Snow, Wood & Co.

Mr. James R. Porter, F.C.A., chief accountant of Mobil Oil Company Ltd., has been appointed Regional Controller of the newly-formed Northern and South Eastern Europe Region of Mobil International Oil Company. The region includes Mobil companies in the United Kingdom, Scandinavia, Greece, Turkey and Cyprus. Regional headquarters will move to London from New York in 1962.

Price Waterhouse & Co. announce that in conjunction with Lowe, Bingham & Thomsons, who have hitherto acted as their correspondents in Japan, they are constituting a new partnership in Japan under their own firm name with effect from January 1, 1962. The resident partners will be Mr. A. R. Forsyth, C.A., Mr. Eric J. V. Hutt, F.C.A., and Mr. Vincent Coe, C.P.A., and the offices will be at Naka 9th Building, 14, Marunouchi 2-chome, Chiyoda-Ku, Tokyo, and at Okinawa.

Messrs. Wright, Fairbrother & Steel, Chartered Accountants, London, W.C.1, announce that Mr. Herbert C. Bunn, F.C.A., who has been a partner for almost forty years, has retired from the partnership, but continues to be associated with the firm as a consultant.

Messrs. Sidney Wagner & Co., Chartered Accountants, have amalgamated with Messrs. Jeffrey Fine & Co., Chartered Accountants. The new firm is Wagner, Fine & Co., 18 Hanover Street, London, W.1.

Messrs. McClelland, Moores & Co., Chartered Accountants, Glasgow, announce that Mr. John Goodwin, C.A., has retired from the firm.

Mr. A. H. Holmes, A.C.A., secretary of Richard Sutcliffe Ltd., Wakefield, has been appointed to the Board of directors.

Mr. J. M. A. Smith, F.C.A., has been appointed by the Minister of Housing and Local Government as a member of the Commission for the New Towns.

Mr. A. J. Burden, A.C.A., advises that, following the regretted death of his partner, Mr. J. N. Struthers, F.C.A., he is continuing under the same style the practice of Beever & Struthers, Chartered Accountants, Manchester.

Mr. T. B. Bunting, F.C.A., has been elected Chairman of the Brewers' Society.

Mr. J. Tarran, A.C.A., has been appointed chief accountant of Millars' Machinery Co. Ltd., Bishop's Stortford.

Mr. C. R. Stephenson, F.C.A., and Mr. J. B. Charles, F.C.A., announce that as from January 1, 1962, they will practise in partnership as Stephenson, Charles & Co. at 40 West Street, Reigate, Surrey, in continuance of the practice hitherto carried on by Mr. Stephenson at 38 Bell Street, Reigate. Mr. Charles will continue his consulting practice in London, S.W.1.

Mr. P. V. Walker, A.C.A., has been appointed chief methods accountant to The General Electric Co. Ltd.

Messrs. Wallace Cash & Co., Chartered Accountants, London, W.1, announce that they have taken into partnership Mr. M. A. Braham, A.C.A., and that they have moved their offices to Hillgate House, Old Bailey, London, E.C.4.

Mr. Ronald Fitch, A.C.A., has been appointed chief accountant at the Trafford Park works of Lancashire Dynamo & Crypto, a company in the Metal Industries Group.

Mr. Charles H. Hills, F.C.A., Birmingham, has taken into partnership his son, Mr. A. J. Hills, A.C.A. The firm name, Blackham & Hills, is unchanged.

Mr. Reginald O. A. Keel, F.C.A., financial director of the Heinemann Group, has been appointed managing director of Heinemann Publishers Ltd.

Mr. V. C. Ulbrick, A.C.A., has been re-elected chairman of the Transvaal Clay Manufacturers Association.

Messrs. Thomson, Gregory, Thol & Co., Messrs. Butler, Viney & Childs, and Messrs. J. Priestley, Son & Co., London, E.C.4, announce with deep regret the death on November 19 of Mr. Dudley Howard Pratt, B.A., F.C.A. The two practices first named will be continued by the surviving partners, and arrangements are being made to deal with the last-named practice, which was carried on solely by Mr. D. H. Pratt.

Messrs. Cook & Co., Chartered Accountants, Liverpool and Manchester, announce that they have admitted Mr. W. H. Evans, F.C.A., into partnership. The firm's name remains unchanged.

The Accountants' Christian Fellowship will hold a meeting for Bible reading and prayer at 1 p.m. on Monday, January 1, in the vestry at St. Mary Woolnoth Church, King William Street, London, E.C.4. The scripture will be Ephesians, Chapter 3, verses 14 to 21. On Wednesday, January 17, at 6 p.m., a series of short informal discussions ("Christians Talking") will be held in the Oak Hall of The Institute of Chartered Accountants in England and Wales, Moor-gate Place, London, E.C.2.

## Classified Advertisements

Advertisements under "Appointments Vacant," "Appointments Required," "Articled Clerks"—six shillings per line. Under "Practices and Partnerships," "Official Notices," "Miscellaneous" and other headings—eight shillings per line. Minimum five lines (seven words per line). Box numbers—five shillings extra (including the five words in the advertisement). Semi-display panels—£4 10s. per column inch. All terms prepaid. Replies to Box Number advertisements should be addressed Box No. . . ., c/o ACCOUNTANCY, Moorgate Place, London, E.C.2, unless otherwise stated. It is requested that the Box Number be also placed at the bottom left-hand corner of the envelope.

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(Continued on page xxxvi)

## The Chartered Accountants' Benevolent Association

The principal object of the Association is the relief of necessitous persons who are or have been members of The Institute of Chartered Accountants in England and Wales, of their necessitous wives and children and of the necessitous widows and children of deceased members.

All members of the Institute are invited to support the Association by the payment of an annual subscription or by donation. Some members may also find it possible to mention the Association in their wills.

The Association is able from time to time to assist in finding accommodation in homes for aged members and their wives and for the aged widows of members in cases where a measure of care and attention is required which cannot be obtained by paying for it at normal commercial rates.

Enquiries should be sent to the Honorary Secretary at Moorgate Place, London, E.C.2.

### APPOINTMENTS VACANT

(continued from page xxxv)

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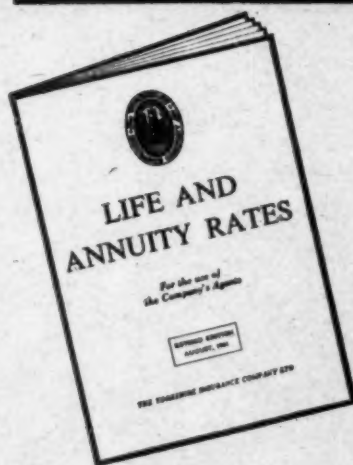






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Gepäck verloren**

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